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Air passenger duty: recent debates and reform

Summary

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Summary

Air passenger duty (APD) is charged on all passenger flights from UK airports. The rate of duty varies according to passenger destination and the class of passenger travel.[1] APD raised £3.7 billion in 2019/20.[2]

Some commentators have argued that APD should be charged on planes rather than passengers, to provide better incentives for passengers and airlines to cut carbon emissions from aviation. In January 2008 the Labour Government launched a consultation on just such a change, but in November that year the then Chancellor Alistair Darling announced that instead of a per-plane duty, APD would be restructured: the tax would be based on four geographical bands set at intervals of 2,000 miles, so that travellers flying farther would pay a higher rate of duty. There would be two rates of duty within each band: a standard rate, and a reduced rate to apply to the lowest class of travel.[3] The new structure took effect from 1 November 2009, despite concerns about the impact of the new system for passengers making long haul flights, particularly those making journeys to the Caribbean.

During the 2010 General Election campaign both the Conservatives and the Liberal Democrats argued for reforming APD. In its first Budget on 22 June 2010 the new Coalition Government stated that it would "explore changes to the aviation tax system, including switching from a per-passenger to a per-plane duty."[4] In the 2011 Budget the Government stated it would not proceed with a per-plane duty "given concerns over the legality and feasibility of this approach"[5] but it would consult on options for simplifying the rate structure as well as proposals to extend the scope of the tax to flights on business jets.[6] It also announced that while it was assumed that the rates of APD should go up each year in line with inflation, duty rates would be frozen for twelve months, with the increase for 2011/12 deferred until April 2012.[7]

In December 2011 the Government confirmed that a new higher rate of duty would apply to business flights from 1 April 2013, but the 4-band structure

1 HM Revenue & Customs, Rates for air passenger duty: guidance, updated 1 April 2021. The current distance band structure and rate schedule is set out in an appendix to this briefing.

2 Office for Budget Responsibility, Economic & Fiscal Outlook, CP 387, March 2021 (Table 3.4). Receipts fell sharply with the impact of Covid-19 to £0.6bn in 2020/21. They are forecast to rise steadily over the next three years from £1.3bn in 2021/22 to £3.1bn by 2023/24.

3 HC Deb 24 November 2008 c499; HMT Pre-Budget Report press notice PBR08/2, 24 November 2008

4 Budget 2010, HC 61, June 2010 p36

5 Budget 2011, HC 836, March 2011 para 1.152-3

6 HM Treasury, Reform of Air Passenger Duty: a consultation, March 2011 para 1.4

7 HM Treasury, Budget 2011 policy costings, March 2011 p41

would be retained.[8] Duty rates would rise in April 2012, fully reflecting the rise in inflation over the past two years.[9]

Over this period travel organisations and airlines campaigned consistently for APD to be scrapped, though Ministers opposed cutting duty rates or abolishing the tax on grounds of cost.[10] Duty rates were increased in line with inflation for both 2013/14 and 2014/15.[11]

In his 2014 Budget the then Chancellor, George Osborne, announced that from April 2015 the 4-band structure of the tax would be replaced with 2-bands: Band A for short haul flights, and Band B for all long haul flights. Mr Osborne also proposed that the higher rates of duty for flights on private jets would be substantially increased.[12] This reform was estimated to cost £215m in 2015/16, rising to £250m by 2018/19.[13] Subsequently in his Autumn Statement that year the Chancellor announced that APD on economy flights would be scrapped for children in two stages: first, from 1 May 2015 for children under 12, and then from 1 March 2016 for children under 16.[14]

Since these reforms no further changes have been made to the structure of APD, and duty rates have generally been increased in line with inflation.

First, for 2016-2018 duty rates were increased in line with inflation,[15] although the rounding of APD rates to the nearest £ has meant that the rates on 'Band A' short haul flights have remained frozen over the whole period.[16]

In the Autumn 2017 Budget the then Chancellor Philip Hammond announced that for 2019/20 the standard and higher rates on 'Band B' long haul flights would be increased, though other duty rates would be frozen.[17] In his 2018 Budget Mr Hammond announced that for 2020/21 short-haul rates would remain fixed, while rates on long haul flights would be increased in line with inflation.[18] Subsequently the Chancellor Rishi Sunak has announced inflation-only increases in duty rates for both 2021/22 and 2022/23.[19]

Over this period there have also been a number of significant developments with regard to the application of APD across the UK.

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8 HM Treasury, Reform of Air Passenger Duty: response to consultation, December 2011

9 Autumn Statement, Cm 8231 November 2011 para 2.31

10 For example, see comments by Treasury Minister David Gauke in an Opposition day debate on APD in October 2013 (HC Deb 23 October 2013 c403).

11 Budget 2012 HC 1853, March 2012 para 2.158; Budget 2013 HC 1033, March 2013 para 2.157

12 HC Deb 19 March 2014 c787; Budget 2014 HC 1104, March 2014 para 2.160-1

13 Budget 2014, HC 1104, March 2014 p57 (Table 2.1 – item 36).

14 HC Deb 3 December 2014 c312. This was estimated to cost £45m in 2016/17, and £85m in 2017/18: Budget 2015, HC 1093, March 2015 (Table 2.2 – item c).

15 Budget 2016, HC 901, March 2016 para 2.169; Spring Budget 2017, HC 1025, March 2017 para 3.26

16 HMRC, Historic rates for Air Passenger Duty, updated 1 April 2021; HMRC, Air Passenger Duty rates from 1 April 2022 to 31 March 2023, 3 March 2021

17 Autumn Budget 2017, HC 587, November 2017 para 3.45

18 Budget 2018, HC 1629, October 2018 para 3.49

19 Budget 2020, HC 121, March 2020 para 2.221; Budget 2021, HC 1226, March 2021 para 2.86

Scotland: In 2016 the Government introduced the Scotland Act 2016 to implement the recommendations for the further devolution of powers to the Scottish Parliament made by the Smith Commission in November 2014. As part of this package of measures, it was anticipated that APD would be devolved from April 2018. Over 2016 the Scottish Government consulted on the design of a replacement Scottish Air Departure Tax and confirmed plans to cut this tax by 50% by the end of the next Scottish Parliament, and abolish it completely when resources allowed.[20] However, in October 2017 the Scottish Government announced it would postpone this reform, and to date there is no fixed date for the introduction of the new tax.[21]

Regional airports in England: Regional airports have raised concerns about the potential impact of devolution of APD to Scotland,[22] and in July 2015 the Government consulted on possible options to mitigate these effects – looking at the case for devolving APD, for varying duty rates across England, or providing aid directly to affected airports.[23] However, any of these options would have to comply with EU rules on aviation, State aid and tax devolution. Following the outcome of the EU referendum, in November 2016 the Government confirmed that it would not take specific measures at this point, but would "review this area again after the UK has exited from the EU."[24]

Northern Ireland: In July 2011 the Northern Ireland Affairs Committee published a report on APD in which it recommended that the tax should be abolished for flights both to and from airports in Northern Ireland, because of competition from airports in the Republic and the threat this posed to one particular transatlantic route.[25] In September that year the Government announced that the rate of APD on direct long haul flights from airports in Northern Ireland would be cut to the short haul rate, and that it would consult on devolving aspects of APD.[26] In February 2012 the Government confirmed that provision in the upcoming Finance Bill would devolve APD to the Northern Ireland Assembly,[27] and in autumn 2012 the Northern Ireland Executive introduced legislation to abolish APD on direct long haul flights from 1 January 2013.

In 2014 the Irish Government abolished Ireland's version of APD – the 'Air Travel Tax' – and there have been concerns that the tourist industry in Northern Ireland has been particularly affected by this, and by the lower 9% VAT rate in Ireland which applies to a number of tourism related goods and

[20] Scottish Government, Programme for Government 2015/16, September 2015 (section 3)

[21] Revenue Scotland, Air departure tax FAQs, April 2019

[22] see, Transport Committee, Smaller airports, HC 713 of 2014/15, 13 March 2015; and, Westminster Hall debate on regional airports: HC Deb 2 February 2016 cc301-327WH.

[23] HM Treasury, Discussion paper on options for supporting English regional airports from the impacts of air passenger duty devolution, July 2015

[24] Autumn Statement, Cm 9362, November 2016 para 4.37. A summary of responses to the discussion paper were published at this time.

[25] Second report: Air Passenger Duty, 8 July 2011, HC1227 of 2010-12 paras 5, 18-19

[26] HM Treasury press notice 107/11, 27 September 2011. HC Deb 19 October 2011 c964W

[27] HC Deb 21 February 2012 c71WS. Provision to this effect was made by s190 & schedule 23 of Finance Act 2012. Consequential changes were made by Order (SI 2012/3017).

services.[28] In the Autumn 2017 Budget the Government announced that it would "publish a call for evidence which will consider the impact of VAT and air passenger duty (APD) on tourism in Northern Ireland, to report at Budget 2018."[29] This consultation was launched in March 2018. This noted that responses to the consultation "will inform future policy development but the government has made no firm decisions about the issues set out in this document."[30] In the 2018 Budget the Government announced that there would be "no changes to the VAT or APD regimes in Northern Ireland at this time" but that it would "continue to explore ways to support a successful and growing tourism industry."[31]

Finally, in the 2020 Budget the Government announced that it would consult on reforming the taxation of aviation. This consultation was postponed until March 2021 – one of a number of tax consultations deferred in response to the impact of the Covid-19 pandemic.[32] The consultation document sets out the Government's current approach to taxing the aviation sector, via APD, before going on to seek views on the Government's initial position that the effective rate of APD on domestic flights should be reduced. It also seeks views on a potential increase to the number of distance bands, in order to align the tax more closely with the government's environmental objectives and to help fund any reduction in domestic APD.[33]

The consultation closed on 15 June. In answer to a PQ on 1 July Treasury Minister Kemi Badenoch confirmed that, "the Government is currently reviewing responses and will update in due course."[34]

*

This briefing discusses the debate there has been on the right approach to taxing aviation, in the context of these developments. Two other Commons Library briefings look at the introduction of APD, and the Labour Government's approach to reforming the tax.[35]

HM Revenue & Customs publish guidance on the operation of the tax,[36] and statistical data on its receipts.[37]

[28] see, Northern Ireland Affairs Committee, Promoting the tourism industry in Northern Ireland through the tax system, HC 50, 20 March 2018

[29] Autumn Budget 2017, HC 587, November 2017 para 4.89

[30] HMT, VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence, March 2018 para 1.8. see also, PQ136109, 23 April 2018.

[31] Budget 2018, HC 1629, October 2018 para 4.113

[32] Budget 2020, HC 121, March 2020 para 2.222; Written Statement HCWS211, 28 April 2020

[33] HMT, Tax policies and consultations (Spring 2021), CP404, March 2021 para 3.3

[34] PQ23090, 1 July 2021

[35] Air passenger duty: introduction, CBP413, 14 February 2019; and, Air passenger duty: the approach of the Labour Government (2007-10), CBP6426, 14 February 2019.

[36] HMRC, APD for plane operators, February 2019, and, Exemptions from APD, January 2018

[37] HMRC. Air Passenger Duty: statistical bulletin, updated June 2021

1 The Coalition Government's approach

1.1 The rise in aviation emissions

For many years there have been serious concerns regarding the growing significance of aviation in global carbon emissions, and the associated impact on climate change. In 2006 the Labour Government identified this trend – suggesting that by 2030 aviation might account for 15% of the UK's total output of CO_2:

> Globally, carbon dioxide from aviation is responsible for around 1.6 per cent of total greenhouse gas emissions, but this level is set to increase as other sectors reduce emissions while demand for air travel rises. The UK aviation sector currently accounts for around 5.5 per cent of the UK's total carbon dioxide output and this could rise to as much as 15 per cent by 2030. Aircraft are also responsible for high-altitude emissions of nitrogen oxides (NOx), and for the formation of cirrus clouds and contrails. The total climate change effect of all aviation emissions is estimated to be at least two to four times greater than the effect of carbon dioxide emissions alone.[38]

In subsequent years aviation emissions grew consistently,[39] and in 2013 the DfT published forecasts which indicated that the level of emissions would not start to stabilise until 2040.[40]

In the light of these trends many commentators have argued that the tax treatment of aviation should provide better incentives for passengers and airlines to cut emission levels.[41] Although road fuel is charged excise duty, and represents a substantial proportion of the pump price paid by motorists, aviation kerosene (AVTUR) which is used in jet engines is **exempt** from duty, under international agreement. The exemption of airlines from national taxes and customs duties on a range of aviation-related goods, including parts, stores and fuel is a standard element of the network of bilateral 'Air Service Agreements' (ASAs) between individual countries, following the principles of

[38] Pre-Budget Report, Cm 6984 December 2006 para 7.76

[39] See, DfT Statistics: Energy & Environment – in particular, Energy consumption by transport mode and energy source: United Kingdom (Table ENV0201)

[40] UK Aviation Forecasts, January 2013 (see section 6 of this report). For more recent estimates see, UK Aviation Forecasts 2017, January 2018.

[41] In July 2003 the Environment Audit Committee supported the introduction of an "emissions charge levied on flights and which is clearly displayed on travel documentation" (Ninth report: Budget 2003 and aviation, 29 July 2003, HC672 of 2002-03 paras 74-77).

the 'Chicago Convention', the fundamental treaty on international civil aviation.[42]

There are several obstacles to taxing aviation fuel. Prior to the UK's depature from the EU, unilateral moves by the UK to impose duty on this category of fuel are likely to have been counterproductive, as well as contrary to EU law. Even if EU Member States hd agreed to imposing duty, it remains likely this would have only limited effect. Imposing duty on all flights - not just 'domestic' ones within the EU - would pose the threat of "tankering": carriers filling their aircraft as full as possible whenever they landed outside the EU to avoid paying tax. In turn this would worsen the problem of aviation emissions, as aircraft would be burning up extra unnecessary fuel and adding to emissions whenever they did this, given the extra weight of a full fuel tank. Although there have been some moves to reach an international agreement on ending this anomaly, progress has been slow.[43]

For its part the Labour Government took the view that changing aviation taxation was not the best way to tackle the growth in aviation emissions. In its white paper on aviation published in December 2003, it argued that bringing aviation within the EU emissions trading scheme represented the most effective response to the growth in emissions.[44] In December 2007 Member States agreed that aviation would come into the scheme from 2012.[45]

1.2 The June 2010 Budget

APD was not a major issue in the 2010 General Election, though it was mentioned in both Conservative and Liberal Democrat manifestoes. The Conservative Party stated that it wished to, "reform Air Passenger Duty to encourage a switch to fuller and cleaner planes"[46] while the Liberal Democrats proposed "replacing the per-passenger Air Passenger Duty with a per-plane duty (PPD)" to raise an extra £3bn by 2011/12.[47]

During the election campaign, the Institute for Fiscal Studies published a series of briefing papers, and in a note looking at the parties' environmental policy, the authors commented on these proposals:

> The Liberal Democrats have suggested replacing air passenger duty with a per plane aviation duty. This would be charged on both passenger and freight planes and on flights to all destinations. The

[42] For more details see, Taxing aviation fuel, Commons Library briefing CBP523, 22 October 2019

[43] As noted by the Labour Government in its response to the Environmental Audit Committee's report on the 2008 PBR (Fourth special report, 8 June 2009, HC563 of 2008-09 p9).

[44] The future of air transport, Cm 6046, December 2003 para 3.40

[45] For more background see, EU ETS and Aviation, Commons Library briefing CBP5533, 23 May 2012. A second Library briefing discusses recent efforts to decarbonise the aviation sector: Aviation, decarbonisation and climate change, CBP8826, 12 February 2021.

[46] Conservative Party, Invitation to join the Government of Britain: the Conservative Manifesto, April 2010 p23

[47] Liberal Democrats, Liberal Democrat Manifesto 2010, April 2010 p14, p100

> per plane tax would take into account emissions of nitrous oxide on take-off and landing (apparently well correlated with the per mile emissions of the plane), maximum take-off weight (MTOW) and distance travelled. The Conservatives have also proposed a reform of air passenger duty "to encourage a switch to fuller and cleaner planes", but so far their proposal remains unspecific.
>
> Under Liberal Democrat plans, there would be a supplementary tax on domestic flights in the UK in order to encourage rail travel. The cost per mile of the tax would be higher for domestic flights travelling less than 300 miles (excluding "lifeline flights", which we interpret to be flights to Scottish Islands, and flights between Northern Ireland and the rest of the UK). They aim for these two taxes to raise £3.3 billion if implemented in 2010–11. The tax would be adjusted to meet this revenue target. To avoid aeroplanes touching down in a country close by and then taking off to a further, final destination they would charge the duty to the final destination.
>
> The government has already considered and rejected a per-plane tax levied according to distance travelled and MTOW.[48] The concern was that using MTOW would not provide incentives for airlines to improve their environmental efficiency. There were also concerns that such a tax could threaten Britain's status as a transit hub for international flights, if other airlines tried to avoid the tax by switching to alternative hubs on the continent.
>
> Such a tax, if implemented, would be a better targeted tax than air passenger duty is at present. The current duty is a per-passenger tax and so is not charged on freight flights, which also contribute to greenhouse gas emissions. At the moment it only varies by distance travelled through four broadly defined bands. It also provides no incentives for airlines to reduce carbon emissions per flight, or to reduce the number of total flights by carrying more passengers per plane.[49]

The new Government gave details of its approach to taxation in the Coalition agreement and, as part of this, stated that it would "reform the taxation of air travel by switching from a per-passenger to a per-plane duty, and will ensure that a proportion of any increased revenues over time will be used to help fund increases in the personal allowance."[50] The Government's first Budget was on 22 June, and in the Budget report, it stated it would "explore changes to the aviation tax system, including switching from a per-passenger to a per-

[48] Pre Budget Report, HM Treasury, 2008

[49] Paul Johnson & Peter Levell, Environmental Policy Proposals: 2010 Election Briefing Note no.14, Institute for Fiscal Studies, 28 April 2010 pp8-9. The authors note the issue is examined further in, Leicester, A. and C. O'Dea (2008), "Aviation taxes" in Chote, R. et al (eds.), IFS Green Budget 2008

[50] HM Government, The Coalition: our programme for government, 20 May 2010 p30

plane duty, which could encourage fuller planes. Major changes will be subject to public consultation."[51]

No further details were published before the 2011 Budget, although there was some speculation in the press that there had been a change of heart on introducing a per-plane tax.[52] In their 2011 Green Budget the Institute for Fiscal Studies touched on this issue, suggesting that "a move to a per-plane tax is … still a good idea":

> The fact that aircraft weight and distance flown are not perfect proxies for the emissions of a flight is not in itself a good reason to have rejected the change. As a possible basis for a tax, weight and distance are almost certainly more closely correlated to emissions than passenger numbers and destination.[53]

The industry appears to have taken the view that higher taxes were likely, irrespective of any wider reforms. In March 2011 ABTA launched a 'Fair Tax on Flying' campaign, supported by many airlines, airports and travel trade associations, opposing any further rise in APD.[54]

Subsequently chief executives from British Airways, Ryanair, EasyJet and Virgin Atlantic, made a joint case for abolishing the tax, on the grounds that aviation would come within the extension of the EU Emissions Trading Scheme from January 2012.[55] To buttress its case the Association published figures showing comparing duty rates to those charged in other countries:[56]

Table 1: Comparative aviation tax rates for a family of four

	To Europe	To the USA	To Australia
From the UK	£48	£240	£340
From Germany	£30	£90	£164
From Austria	£30	£90	£127
From Ireland	£11*	£11*	£11*
From France	£4	£14.5	£14.5
From Other European Countries	0	0	0

* The Irish Government has announced its intention to remove this taxation in due course.

[51] Budget 2010 HC 61 June 2010 p36
[52] "Aviation tax reform dropped", Financial Times, 12 March 2011
[53] "Chapter 11: Environmental policy", in IFS Green Budget 2011, February 2011 p262
[54] "2011: the most expensive year to holiday abroad", Sunday Times, 6 March 2011. At this time 27 Members signed o supporting the campaign (EDM 1523, Aviation taxation, 2 March 2011).
[55] "Airline chiefs demand an end to tax that 'deprives families of a holiday'", Times, 18 November 2011
[56] ABTA, ABTA Response to HM Treasury: Reform of Air Passenger Duty, 16 June 2011

The Airport Operators Association also published comparative figures, reproduced in a report by the All Party Parliamentary Group for Aviation in summer 2012:[57]

Rates of UK aviation tax per person compared to other EU countries

Country	Short haul rate in economy (€)	Medium haul rate in economy (€)	Long haul rate in economy (€)	Max rate charged - any class (€)
Austria	€8.0	€20.0	€35.0	€35.0
France	€5.2	€5.2	€11.6	€47.6
Germany	€7.5	€23.4	€42.2	€42.2
Ireland	€3.0	€3.0	€3.0	€3.0
Italy	€4.5	€4.5	€4.5	€5.5
UK	**€16.0**	**€89.9**	**€113.3**	**€226.6**
Other EU average	€5.6	€11.2	€19.3	€26.7
All EU average	€7.4	€24.3	€34.9	€60.0
Ratio - UK: other EU	**2.8**	**8.0**	**5.9**	**8.5**
Ratio - UK: all EU	**2.2**	**3.7**	**3.2**	**3.8**

Source: Airport Operators Association (AOA)

In answer to PQs on airport taxes at this time, the Government did not provide comparable figures, noting that "information on the aviation taxes of other EU member states and other G20 countries is published and freely available" but that, "unlike many other countries, the UK does not apply VAT on flights and aviation fuel for commercial flights is not taxed."[58] It also noted that the total makeup of aviation taxes will vary from country to country, and that passengers using airports in other countries may be asked to pay for "costs such as landing fees, air traffic control and airport infrastructure charges."[59]

1.3 Budget 2011: proposals to reform APD

In his 2011 Budget the then Chancellor, George Osborne, announced that as it was likely that a per-plane charge would fall fowl of international law, the Government would consult on simplifying the structure of APD rather than replacing the tax. He went on to confirm that, as is standard practice with excise duties, APD rates would rise in line with inflation, but this increase would be deferred for one year:

> Let me be straight with the House: we had hoped that we could replace the per passenger tax with a per plane tax. We have tried every possible option, but have reluctantly had to accept that all are

[57] All Party Parliamentary Group for Aviation, Inquiry into Aviation Policy and Air Passenger Duty, August 2012 p10. For later work along these lines see, PriceWaterhouse Coopers (PwC), The economic impact of Air Passenger Duty, February 2013; British Air Transport Association (BATA), Flying high? How competitive is Air Passenger Duty?, March 2016.

[58] HC Deb 19 December 2011 c984W

[59] HL Deb 8 March 2012 cWA434

> currently illegal under international law. So we will work with others to try to get that law changed.
>
> In the meantime, we are consulting today on how to improve the existing and rather arbitrary bands that appear to believe that the Caribbean is further away than California. We will also seek to bring private jets, which pay no duty at all, into the scope of taxation. The wealthiest should not escape the tax that the ordinary holidaymaker has to pay. I can tell the House that with the hefty duty rise last year and with the cost pressures on families, we think it would be fair to delay this April's air passenger duty rise to next year.[60]

The Budget report confirmed that duty rates would be frozen for 2011/12 "with the RPI increase assumed in the forecast deferred to April 2012."[61]

On the wider question of controlling emissions, the consultation document endorsed the previous Government's approach:

> In the longer-term, if we are to succeed in limiting global emissions from aviation, industry and government must work together to develop efficient, market-based mechanisms for incentivising long-term investment in low-carbon technologies and the proper incorporation of environmental costs in the market pricing of air transportation. In this respect, the Government believes that the EU Emission Trading System (ETS) should be the principal mechanism for delivering on its goals for reducing the global CO2 emissions impact of aviation.[62]

The paper said relatively little on the legal impediments to a per-plane tax, simply noting that, "the UK is a signatory to the 1944 ICAO Chicago Convention and has Air Service Agreements (ASAs) with over 150 countries" and that "many stakeholders have expressed concerns about the legality and feasibility of introducing a per plane duty under current international rules."[63] The paper went on to discuss two aspects of APD that had been criticised: the exemptions for certain categories of flight (passenger transfer flights, flights on smaller planes and jets, and air freight); and, the tax's 4-band structure.

On the first issue, the Government took the view that without international action, it would be counterproductive to tax freight flights or to tax passengers using UK airports for transfers, but that the current exemption of

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[60] HC Deb 23 March 2011 c963

[61] Budget 2011, HC 836 March 2011 para 1.153. As excise duties are expressed in cash terms, the general pattern is for governments to revalorise them each year: increase them in line with inflation to maintain their real value. At this time the Government's baseline was to increase APD rates by the projected RPI figure in the year to September prior to the respective change, rounded to the nearest £1 (HM Treasury, Budget 2011 policy costings, March 2011 p69).

[62] HM Treasury, Reform of Air Passenger Duty : a consultation, March 2011 para 3.9. See also, HC Deb 22 October 2013 cc146-7W

[63] HMT, Reform of Air Passenger Duty : a consultation, March 2011 para 4.5

flights on small planes should be changed, to ensure passengers on private jets paid APD:

> Aside from a number of essential services, the main exemptions from APD relate to passengers who transfer or transit through UK airports, and all passengers who travel in private or commercial aircraft which are under the current weight and passenger seat de minimis for APD (the current exemption applies to aircraft, including helicopters, under 10 tonnes authorised take-off weight or with fewer than 20 seats) …
>
> For many airlines operating in and out of the UK, transit-and-transfer passengers are crucial, as they enable services to be provided to destinations that would not otherwise be served and support higher flight frequencies to many popular destinations. The enhanced connectivity that this provides is an important benefit for UK passengers and the economy as a whole. In the absence of co-ordinated international action, the Government believes that it is not appropriate to extend APD to transfer-and-transit passengers at UK airports.
>
> Taxing transit-and-transfer passengers would also unfairly impact on passengers at UK regional airports who continue their journey via another UK international airport. For similar reasons, the Government believes that it is not appropriate to extend the tax regime to dedicated freight transport services in the UK at the current time …
>
> There is a strong fairness argument for extending aviation taxation to the many thousands of private passenger flights on aircraft (including helicopters) below the present weight and passenger seat de minimis limit ('business jet flights'), which currently are not liable to APD … The Government proposes a per passenger tax for passengers aboard aircraft with an authorised take-off weight in excess of 5.7 tonnes where APD is not already payable. The proposal is to have a single rate of duty per passenger in 2012-13, irrespective of distance travelled, equivalent to the highest standard rate of APD. The precise definition of flights covered by the new tax will be determined in light of consultation evidence and responses.[64]

The paper also considered criticisms of APD's 4-band structure: that it was damaging UK competitiveness and contained several anomalies – such as imposing a higher rate on Caribbean flights that flights to destinations in the USA which were further away from the UK. The paper set out two options for reform:

- returning to the structure that had been in place before 2009, comprising two tax bands (broadly speaking, flights within Europe, and

[64] op.cit. paras 4.9-4.12

those elsewhere), and two classes of travel. In this case, the distinction between short-haul and long haul flights could be based either on distance – short-haul being up to 2,000 miles – or the boundaries of the European Common Aviation Area.

- creating a three band structure by combining the current two higher bands for flights over 4,000 miles away and, again, retaining two classes of travel.

The paper summarised both options, in terms of what duty rates would have to be to ensure a broadly revenue-neutral reform. As a reference point, the paper summarised the current duty structure, along with the rates that would apply from April 2012, assuming indexation (bracketed estimates):[65]

Table 4.A: The Current Four Band APD Regime

Current APD Bands	From 1 November 2010	
(Distance in miles from UK)	Reduced rate* (in lowest class of travel)	Standard rate* (in other than lowest class of travel)
Band A (0-2000)	£12 (£13)	£24 (£26)
Band B (2001-4000)	£60 (£65)	£120 (£130)
Band C (4001-6000)	£75 (£82)	£150 (£164)
Band D (over 6000)	£85 (£93)	£170 (£186)

*Bracketed estimates indicate notional APD rates effective from April 2012, assuming uprating of reduced rates by forecast RPI inflation in 2011 (deferred for 1 year) and 2012, rounded to the nearest pound (and standard rates are twice reduced rates).

Table 4.B: Moving to Two Band APD Regime

Proposed APD Bands	From 1 April 2012	
(Distance in miles from UK)	Reduced rate* (in lowest class of travel)	Standard rate* (in other than lowest class of travel)
Band A (0-2000)	£13-£16	£26-£32
Band B (over 2000)	£65-£75	£130-£150

* Estimates indicate ranges from which rates would be set to deliver a broadly revenue neutral reform from April 2012, relative to bracketed rates in table 4.A.

Table 4.C: Moving to Three Band APD Regime

Proposed APD Bands	From 1 April 2012	
(Distance in miles from UK)	Reduced rate* (in lowest class of travel)	Standard rate* (in other than lowest class of travel)
Band A (0-2000)	£13-£16	£26-£32
Band B (2001-4000)	£60-£69	£120-£138
Band C (over 4000)	£72-£83	£144-£166

* Estimates indicate ranges from which rates would be set to deliver a broadly revenue neutral reform from April 2012, relative to bracketed rates in table 4.A.

[65] RPI estimates were amended subsequently, so the rates of duty from 1 April 2012 were slightly different to those shown here: the rates for Band C and D were £81/£162 & £92/£184 respectively.

An appendix to the paper mapped out the impact of these options, and gave a checklist of destinations. It is worth noting that these examples were based on current practice, in that banding was based on the distance from London to the **capital city** of the country concerned. This would continue to throw up some anomalies – so under a 3-band structure, flights to **all** US destinations would be in a lower band than flights to the Caribbean.

The paper also invited views on how 'premium economy' flights should be classified, whether flights from regional airports should benefit from a lower rate of duty, and whether APD should remain a UK-wide tax or should be devolved. The consultation period closed on 17 June 2011.

The paper noted that "some industry stakeholders" had argued that for lower regional rates of APD given that "airports in London and the South East operate at or near full capacity" while there was "persistent excess capacity at some of the UK's other main airports."[66] In June the Financial Times reported that 10 regional airports had lobbied the Government to replace APD with a congestion-tax, based on the percentage of flying slots used, as a regionally-differentiated APD might be contrary to EU state aid rules.[67] The paper published a letter from the chairman of Gatwick airport who argued the proposal was "unfair and unsubstantiated … the vast majority of international passengers … visiting the UK want to come to London. To ask them to fly into a remote regional airport and then take a train is ludicrous."[68]

The issue was also raised by Henry Smith MP in an adjournment debate in October 2011. Gatwick lies in the Member's constituency so while Mr Smith argued for simplifying the tax, unsurprisingly he argued that higher charges for airports in the South East would be "unfair, unnecessary, economically misguided and environmentally dubious."[69] The then Economic Secretary, Chloe Smith, who responded to the debate, confirmed that the Government would publish a full response to the consultation in the autumn. On the question of having regional APD rates, Ms Smith said, "It is certainly fair to say that there is no consensus on the matter. Some regional airports have asked us to consider lower APD rates for the regions, but several airlines and hon. Members have asked us to consider the opposite."[70]

The Treasury's consultation paper also touched on the question of devolving APD. In November 2010 the Government published the *Scotland Bill* to implement the recommendations of the Calman Commission, including provisions to give the Scottish Parliament new powers to raise its own revenue – principally by means of setting a Scottish rate of income tax.[71] The Commission had argued that a number of taxes could be devolved to "provide useful additional fiscal levers to the Scottish Parliament", including APD, as they were imposed on "items which are less mobile, and so are unlikely to

[66] HMT, Reform of Air Passenger Duty: a consultation, March 2011 para 5.9
[67] "Regional airports call for Heathrow congestion tax", Financial Times, 16 June 2011
[68] "Letter: Unfair imposition on London flyers", Financial Times, 21 June 2011
[69] HC Deb 20 October 2011 c1173
[70] HC Deb 20 October 2011 c1176
[71] For more details see, Scotland Bill, Commons Library briefing RP11-06, 18 January 2011.

cause significant economic distortions."[72] While the Government agreed that the Bill should devolve two taxes from this list – stamp duty land tax and landfill tax – it decided against devolving APD, as it was still exploring whether to replace it with a per plane tax. In turn, the consultation paper asked for views on devolving the tax to Scotland, and to both Wales and Northern Ireland:

> The Government recognises that aviation is, by its very nature, a highly mobile sector, both in terms of airline operations and passenger choice. Before making a final decision, the Government would therefore like to understand the potential impact of devolving APD in Scotland. In a similar way, the Government would also like to understand the case for devolving APD in Northern Ireland and Wales.[73]

In July 2011 the Northern Ireland Affairs Committee published a report on APD in which it recommended that the tax should be abolished for flights both to and from airports in Northern Ireland, because of competition from airports in the Republic and the threat this posed to one particular transatlantic route:

> The one direct transatlantic flight from Belfast to the US, carrying 100,000 passengers a year to New York is currently at risk due to increases in the Air Passenger Duty — adding near £60 per passenger to the US compared to €3 rate in the Republic, although recent reports indicate that the Irish Government is preparing to scrap even this small amount as part of a package of measures being introduced to encourage tourists to the Republic...
>
> If Belfast and Northern Ireland are going to compete with Dublin and the Republic of Ireland for investment from the US then it is important that the direct service is not lost ...
>
> The Continental Airlines transatlantic route from Belfast International to Newark Airport ... is a vital link between Northern Ireland and North America ... In order to support the route, Continental Airlines has been paying the APD itself, expecting to pay some £3.2 million out of its own income in the current year. Asked whether the company would be able to continue to pay the APD for a further year, two senior representatives of the airline, Mr Bob Schumacher and Mr Conor McAuliffe, gave evidence to the Committee that a required solution was "more immediate than that."[74]

In September 2011 the Chancellor announced that to maintain this route, the Government would cut the rate of APD on long haul flights using airports in Northern Ireland; from 1 November 2011 the rate would be cut from £60 to £12

72 Commission on Scottish Devolution, Serving Scotland Better: Scotland and the United Kingdom in the 21st Century, June 2009 p7

73 HMT, Reform of Air Passenger Duty: a consultation, March 2011 para 5.12-13

74 Second report: Air Passenger Duty, HC 1227, 8 July 2011 paras 5, 18-19

for economy passengers, and from £120 to £24 for business-class passengers.[75]

The Government's reasons for doing this were set out in a written statement some days later:

> From 1 November 2011, the rate of air passenger duty (APD) for direct long-haul passengers departing from airports in Northern Ireland will be cut to the short-haul rate, which is currently £12 in economy and £24 in business and first class. This measure is a response to the unique challenge facing Northern Ireland and is designed to ensure local airports remain competitive, demonstrating the Government's commitment to stimulating and rebalancing the Northern Ireland economy. In parallel the Government are launching a process for the devolution of aspects of APD to the Northern Ireland Assembly to provide a lasting solution to the unique circumstances Northern Ireland faces. Devolution of APD to Northern Ireland will require primary legislation. The precise scope of devolution will be agreed in close consultation with the Northern Ireland Executive.[76]

[75] HM Treasury press notice 107/11, 27 September 2011. See also, "N Ireland plans to cut duty on long-haul route", Financial Times, 28 September 2011.

[76] HC Deb 19 October 2011 c964W. This was projected to cost £5m a year from 2013/14: Autumn Statement, Cm 8231, November 2011, p46 (Table 2.1 - item 4)

2 Debates on the impact of APD (2011-14)

In his Autumn Statement on 29 November 2011 the Chancellor confirmed that APD would be extended to cover business flights. The measure was estimated to raise £5m a year. Furthermore the rise in duty rates set for April 2012 would go ahead.[77] The Government's response to the consultation on APD was published a few days later, alongside draft legislation for much of the Finance Bill 2012.[78] In its response to the consultation on APD, the Government confirmed the change in treatment of business flights, but it did not propose **any** changes to the tax's banding structure, to the way different classes of flight are taxed, or to the application of APD to the regions.[79]

On business flights, the Government proposed that APD apply to flights on all aircraft above 5.7 tonnes, and that a higher rate will apply to more luxurious jets, with certain exemptions:

> All flights aboard aircraft of less than 20 tonnes or with 19 seats or more, will be subject to the same distance banding structure and rates of APD that apply to passengers aboard commercial flights. As with commercial flights, seat pitch will be used to determine whether the reduced or standard rate of APD will apply. As part of the consultation process, industry stakeholders provided evidence of the range of services offered by business aviation. This highlighted the fact that aircraft of 20 tonnes or more, with fewer than 19 seats, generally provide a higher class of service. To reflect this, duty rates equivalent to double the standard APD rate in each respective distance band will apply to all flights in this category …
>
> The Government will exempt emergency flights, research and training flights, and helicopters from APD. Where appropriate it will also extend the current exemptions from APD.[80]

As this change would mean APD would include a substantial number of new operators, and would require the introduction of special rules tailored to business aviation, the Government proposed delaying implementation until 1 April 2013.[81] In December 2012 the Treasury announced that special

[77] Autumn Statement, Cm 8231, November 2011 para 1.137, Table 2.1 (item 11) para 2.31. The projected yield from taxing business flights remained £5m pa (Budget 2013, HC 1033, March 2013 : Table 2.2 – item al).

[78] HC Deb 6 December 2011 c11-12WS. For details see HMRC, Air Passenger Duty: Business Jets, and, Air Passenger Duty: Cut in Northern Ireland Rate, December 2011

[79] HM Treasury, Reform of Air Passenger Duty: response to consultation, December 2011

[80] op.cit. paras 2.19-20, 2.22. Annex C to the document gives a full list of these planned exemptions.

[81] op.cit. para 2.23. see also, HL Deb 25 January 2012 cc 1043-4

accounting schemes would be introduced for operators of business jets and small aircraft; provision to this effect would be made by Order.[82]

On the vexed question of banding structure, the Government took the view that further changes would create other anomalies:

> In weighing up the case for reform, the Government recognises that no banding structure will be entirely free of anomalies. Moreover, a revenue neutral change to the current APD distance bandings would inevitably require some passengers to pay more. A move to a two band structure would require passengers travelling within the UK and Europe, and those travelling to band B destinations (including the United States), to pay more in order to ensure overall revenue neutrality. In addition, any change to the banding structure would have some transitional costs for industry and HMRC.
>
> Having considered the impacts of moving to fewer bands, the Government has decided on balance to retain the current banding structure of APD.[83]

The paper went on to set out the Government's case for leaving the treatment of premium economy and regional flights unchanged:

> It is clear from responses to the consultation and further discussion with the industry that premium economy products vary significantly between airlines. Any attempt to define premium economy for taxation purposes would therefore increase the complexity of the tax. This would also lead to greater administrative burdens for both the industry and HMRC. In addition, the Government notes that any attempt to define premium economy by seat pitch would inevitably discriminate between similar products offered by different airlines, including some and excluding others. On balance, to maintain the simplicity of the tax and avoid additional burdens, the Government has decided that no changes will be made to the class of travel distinction in APD …
>
> The Government is committed to rebalancing the UK economy across the regions. As made clear in the National Infrastructure Plan 2011[84], the Government is also committed to maintaining the status of the UK as an international hub for aviation, with excellent connectivity to both developed and emerging markets. The Government will continue to work with stakeholders to examine the role of the tax system in support of these objectives. The Department for Transport is also considering regional connectivity and regional airports policy

[82] HMT, Overview of Legislation in Draft, December 2012 para 1.58. Provision was made by SI 2013/493.

[83] HMT, Reform of Air Passenger Duty: response to consultation, December 2011 paras 3.7-8

[84] National Infrastructure Plan 2011, HM Treasury and Infrastructure UK

> as part of its development of a sustainable framework for UK aviation, which will be issued for public consultation in March 2012.[85]

Treasury Minister Chloe Smith gave more details on the Government's rationale in a written answer at this time:

> **Miss Chloe Smith**: The Government decided not to change the air passenger duty (APD) bands as doing so would lead to an increase in APD for 91% of passengers.
>
> The APD consultation received 136 responses to the question on banding structure. Of this total, 77 supported a move to two distance bands, eight supported retaining the existing four-band structure and a further eight advocated moving to a three-band structure. A further 43 discussed the question and suggested other alternatives. Supporters of the two-band option argued that it would generate fewer anomalies and be simpler for passengers to understand and airlines to administer. Those in favour of the current four-bands or a system based on more distance bands argued that it would be fairer. However, there was no agreement on the composition of these bands.
>
> The APD consultation received 70 responses to the question on class of travel. Of this total, 54 supported a reclassification of premium economy while 11 favoured retaining the existing rules. A further five respondents discussed the issue but offered no clear preference. Most of those who wanted premium economy to be taxed at the reduced rate advocated the use of a 40-inch seat pitch definition.
>
> The Government considered this evidence carefully. A revenue neutral change to the current banding structure would have required those flying to band A and band B destinations (91% of passengers) to pay more. The Government therefore decided to retain the existing four APD distance bands.
>
> It was clear from consultation responses on class of travel that premium economy products vary significantly between airlines. Any attempt to define premium economy for taxation purposes would increase the complexity of the tax, increasing the burdens for both industry and HMRC. A definition based on seat pitch would inevitably discriminate between similar products offered by different airlines.[86]

While the campaign to have the rates of APD cut, or the tax abolished continued,[87] the Government gave no indication that it was willing to change its approach. In February 2012 the Government confirmed that provision in

[85] HMT, Reform of Air Passenger Duty: response to consultation, December 2011 paras 3.24-5, 3.31

[86] HC Deb 13 December 2011 cc 682-3W. see also, HL Deb 23 January 2012 cc795-7

[87] For example, EDM 2591 of 2010-12, 11 January 2012; World Trade and Tourism Council press notice, Air tax – doing substantial damage to the UK economy, 12 March 2012

the upcoming Finance Bill would devolve APD to the Northern Ireland Assembly:

> **The Economic Secretary to the Treasury (Miss Chloe Smith)**: Last September the Government announced measures to support air travel to and from Northern Ireland. From 1 November 2011 APD for passengers travelling on direct long-haul routes departing from airports in Northern Ireland was cut to the lower short-haul rate. To provide a lasting solution, the Government launched a further process to devolve aspects of APD to the Northern Ireland Assembly.
>
> Today, I can announce that the power to set APD rates for direct long-haul flights departing from Northern Ireland will be devolved to the Northern Ireland Assembly and provided for in the Finance Bill 2012. Following devolution, it will be for the Assembly to determine what level of APD will apply to direct long-haul flights. The rates set by the Assembly will apply to the carriage of passengers on and from a day to be appointed by order, irrespective of when the ticket for the flight was booked or purchased.[88]

The Chancellor did not mention APD in his 2012 Budget speech, though the Budget report confirmed the rise in duty rates from 1 April 2012, adding that rates for 2013/14 would be increased in line with inflation from 1 April 2013.[89] The report noted that the forthcoming Finance Bill would also contain the previously-announced measures relating to business jets and the rates in Northern Ireland;[90] in each case the draft legislation as initially published in December 2011 would be introduced without any major changes.[91] These provisions were the subject of a short debate by the Committee of the Whole House on 18 April, when Treasury Minister Chloe Smith set out the Government’s position:

> Hon. Members will know that the Government were able to freeze APD for a year in March 2011. At the high cost to the Exchequer of £140 million, I think people will appreciate that this was not easy. Looking to the future, if we are to stay on course with our deficit reduction plans, it is necessary for APD rates to rise. The fact of the matter is that, over the two years 2011-12 and 2012-13, the increase in APD rates equates to a rise of no more than inflation. Indeed, most passengers will pay only £1 more on their flights. That increase is necessary. To provide greater certainty, we have also set out in this Budget the APD rates for two years up to 2013-14.[92]

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[88] HC Deb 21 February 2012 c71WS

[89] Budget 2012, HC 1853, March 2012 para 2.158; HMT, Overview of tax legislation and rates, March 2012 para 2.44

[90] Budget 2012, HC 1853, March 2012 paras 2.159-160

[91] HMT, Overview of tax legislation and rates, March 2012 p14. Provision to this effect was made by s190 & schedule 23 of Finance Act 2012. Consequential changes were made by Order (SI 2012/3017).

[92] HC Deb 18 April 2012 cc469-70

In turn in autumn 2012 the Northern Ireland Executive introduced legislation to abolish APD on direct long haul flights from Northern Ireland from 1 January 2013.[93] To comply with EU rules on State Aid,[94] the Executive had to bear the full fiscal consequences of this tax cut, so consequential reductions have been made in each subsequent year to its block grant.[95]

In June 2012 Graham Stringer MP put down an EDM arguing that the tax is "acting as a deterrent to both inward investment and inbound tourism" and calling on the Treasury to "commission a comprehensive study into the full economic effects of aviation tax in the UK, including its impact on employment, reporting in advance of the 2013 Budget."[96]

In August 2012 the All Party Parliamentary Group for Aviation published a report on aviation policy and APD. They concluded that there was "no evidence that the recent increases in APD had been based on a thorough modelling of the impacts of APD on the UK economy. Rather, it would seem that increases have been imposed simply because it is a 'successful' means for the Government to raise much needed revenue." The Committee argued that there should be an evaluation of the impact of duty rates on travellers, and more widely on the impact of the tax on the economy.[97] In early 2013 a consortium of UK and Irish airlines published a study, commissioned from PricewaterhouseCooopers (PwC), which claimed that scrapping APD could pay for itself, from the impact it would have on exports and tourism.[98]

However, the Government consistently opposed launching a further formal review,[99] and, when it was cited, took issue with the analysis in the PwC report, as Treasury Minister David Gauke, did at the end of an Opposition day debate on APD in October:

> Contrary to the claims of the PricewaterhouseCoopers report, which has been cited frequently, scrapping APD would not be costless; it would result in a significant loss to the Exchequer. Unless we were to give up on our fiscal goals … the lost revenue would therefore need to be found elsewhere, either by increasing other taxes or by further reducing our public spending. In the course of the debate, I have heard few realistic proposals as to how that could be done. Not only would scrapping APD create substantial costs to the Exchequer, but

93 Under the Air Passenger Duty (Setting of Rate) Act (Northern Ireland) 2012. Details on the scrutiny of this legislation by the Assembly is on its site. See also, HMRC, APD update - Northern Ireland rates

94 For details see, HMG, Review of the Balance of Competences between the United Kingdom and the European Union: Competition and Consumer Policy Report, July 2014 pp25-28

95 PQHL7936, 24 May 2018

96 EDM 174 of 2012-13, 12 June 2012 (105 Members signed this motion). See also, EDM 685 of 2012-13, 5 November 2012

97 All Party Parliamentary Group for Aviation, Inquiry into Aviation Policy and APD, August 2012 pp20-21

98 "Scrap flight tax to boost economy, say airlines", Guardian, 4 February 2013; PWC, The economic impact of Air Passenger Duty, February 2013.

99 HC Deb 19 October 2012 c536W. The Minister reiterated this position in his response to a back bench debate on APD the next month (HC Deb 1 November 2012 cc442-483).

> the benefits of such a step would be small compared with those of the policies that the Government have already put in place.[100]

The Chancellor, George Osborne, did not mention APD in his Budget speech on 20 March 2013, though in the Budget report, the Government announced that for 2014/15, rates would rise in line with inflation (RPI) from 1 April 2014.[101] Provision to increase duty rates from 1 April 2013 was made by the Finance Act 2013. The reduced and standard rates of APD to Band A destinations were unchanged. Reduced rates to all other destinations bands went up by £2, and standard rates by £4.[102] This was debated and approved without amendment, at the Committee stage of the Bill on 18 April 2013.

On this occasion the House debated new clauses put down by the SNP, and Plaid Cymru, for the devolution of APD to the Scottish and Welsh governments. In response to the debate Treasury Minister Sajid Javid set out the Government's reasons for only devolving APD to Northern Ireland:

> The decision to devolve direct long-haul rates to Northern Ireland was a reflection of the unique challenges faced there ... Northern Ireland is the only part of the UK to share a land border with another EU member state with a lower rate of aviation tax. The UK Government are committed to devolving tax powers where it is to the benefit of the UK as a whole. This is evident from the devolution to Scotland of the stamp duty land tax and the landfill tax, which amounts to the biggest transfer of fiscal powers from London to Scotland in 300 years ...
>
> In response to the 2011 consultation on APD, a substantial number of stakeholders raised concerns about devolution complicating the APD system and creating distortions in the markets for flights. This concern was reinforced in a recent report by HMRC suggesting that the devolution of APD could lead to market distortion as a result of passenger redistributions between UK airports, without substantially increasing demand for aviation overall. In considering whether to devolve APD, hon. Members will surely agree that we must assess the risk of replicating the same problems that Northern Ireland faced from lower aviation taxes in the Republic of Ireland ... Our analysis needs to be based on a full examination of the evidence. We will not

[100] HC Deb 23 October 2013 c403. Speaking for the Opposition Catherine McKinnell supported the devolution of APD to Northern Ireland, but was critical of the Government's "piecemeal approach" (op.cit. c382).

[101] The report also noted that the Government had "no plans to vary APD rates by levels of airport congestion" (Budget 2013, HC 1033, March 2013 para 2.157).

[102] Under s185 of FA2013. Under s186 HMRC was given the power to require operators of business jets to make payments of APD on account, should HMRC consider this is necessary to protect revenue (Budget 2013, HC 1033, March 2013 para 2.158). Regulations made under this provision would prescribe the calculation of these amounts and the time when they would have to be paid. This section also added South Sudan to the list of territories in Band B, further to international recognition of this sovereign state (Explanatory Notes – FA2013 p316).

> be rushed or pushed into making premature judgments. On that basis, I ask hon. Members not to press their new clauses.[103]

Subsequently, in answer to a PQ, Treasury Minister David Gauke underlined the Government's view that "APD is a relatively efficient and non-regressive tax, and that abolishing it would have a small impact on GDP and cause a net loss of overall tax receipts":

> **Priti Patel**: To ask the Chancellor of the Exchequer (1) what comparative assessment his Department has made of the amount of air passenger duty paid by (a) British companies, (b) French companies, (c) German companies, (d) companies in the Netherlands and (e) companies in the Republic of Ireland; (2) what assessment his Department has made of the recent report by PricewaterhouseCoopers, The economic impact of air passenger duty, published February 2013; and if he will make a statement; (3) if he will publish his Department's assessment of the effects of current levels of air passenger duty on UK businesses' use of air transport and their ability to export; (4) how many representations he has received from overseas residents regarding air passenger duty in 2012.
>
> **Mr Gauke**: Air passenger duty (APD) is paid by airlines rather than passengers, although airlines usually pass the cost of the tax on in ticket prices. For the purposes of administering the tax, HM Revenue and Customs (HMRC) does not require and does not collect information on the final purchasers of tickets, and so it is not possible to identify the amount of APD paid by companies resident in different countries. While HMRC does hold data on the amount of APD paid by airlines, it is not possible to provide breakdowns of this information by country due to taxpayer confidentiality.
>
> The Government believes that APD is a relatively efficient and non-regressive tax, and that abolishing it would have a small impact on GDP and cause a net loss of overall tax receipts.
>
> The Government has limited the rise in APD to inflation over the period from 2010-11 to 2013-14. Furthermore, Budget 2013 set out rates from April 2014, which will also only rise in line with inflation, ensuring that the level of APD will remain constant in real terms. However, the Chancellor keeps all taxes under review and considers their effects in the round.
>
> Treasury Ministers and officials have meetings and receive representations from a wide variety of individuals and authorities as part of the process of policy development and delivery. Our records

[103] HC Deb 18 April 2013 cc601-2. In the event both new clauses were negatived on division.

> are not broken down to allow the number of communications specifically from overseas residents to be determined.[104]

The Transport Select Committee was also critical of the Government's approach to taxing aviation, in a report on aviation strategy published in May 2013. The Committee took the view that the Government had yet to answer the case for abolishing APD made by the PwC report:

> We recommend that HM Treasury conduct and publish a fully costed study of the impact of APD on the UK economy. We would, in particular, like to know what the Government's view is of the PwC conclusion that abolishing APD would pay for itself by increasing revenues from other sources. If such a study produces clear evidence that APD has a negative effect on the UK economy and Government revenue, we recommend that APD is significantly reduced or abolished.[105]

The Committee also recommended that the Government review the case for a differentiated APD rate …

> High rates of APD were considered to be a barrier to the introduction of new services, particularly at airports outside the south east. … The airports and representatives of businesses in regions outside the south east were broadly in favour of introducing differential rates of APD or introducing an APD holiday to help encourage the development of new routes … Unsurprisingly, the more capacity constrained airports in the south east were opposed to this suggestion. The airlines were also opposed to differential rates of APD and were concerned that they would have unpredictable effects.
>
> There are complex issues and vested interests to be taken into account in any consideration of the merits of differential rates of Air Passenger Duty. We recommend that the Government carry out an objective analysis of the impacts such a policy might have. On the other hand, we see merit in the concept of an APD holiday and recommend that this be introduced for a 12- month trial period for new services operating out of airports outside the south east. After this time, the DfT should assess the extent to which it has led to the development of new routes.

… though it was strongly opposed to the tax being devolved any further …

> In 2012, the Government devolved to Northern Ireland the power to set APD rates for direct long-haul flights departing from Northern Ireland … One of the reasons for this move was that passengers in Northern Ireland were increasingly travelling across the border to take flights from Dublin that were significantly cheaper due to lower levels of taxation … While we accept the need to devolve

[104] HC Deb 9 July 2013 cc158-9W

[105] Aviation Strategy, HC 78 of 2013-14, 10 May 2013, para 105

> responsibility for Air Passenger Duty (APD) in Northern Ireland, we do not support further devolution of APD at this stage as it may have negative impacts, for example, in the north of England.[106]

In its response to the report, citing analysis by HM Revenue & Customs published in October 2012,[107] the Government took the view that it was unlikely that a new rate structure would be of significant help:

> A research report by HMRC 'Modelling the effects of price differentials at UK airports' provided valuable new evidence, which suggested that significant passenger redistributions to regional airports would only occur if APD rates at Heathrow and Gatwick increased substantially – for example by 50% or more. The report also suggested that, even with substantially higher rates at Heathrow and Gatwick, the benefits of passenger redistributions would not be widespread around the country but that the benefits would not be widespread around the country. In fact, some regional airports could lose out, with traffic and services going to other competing regional airports.
>
> The Government is not convinced that varying APD rates by levels of airport congestion would materially help in rebalancing the economy across the regions. Budget 2013 announced that the Government has no plans to vary APD rates by levels of airport congestion. An 'APD Holiday' would be likely to lead to similar effects on passenger redistribution and may also result in a shortfall in essential Exchequer tax receipts.[108]

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[106] op.cit. paras 106-7

[107] HMRC, Modelling the Effects of Price Differentials at UK Airports, Research Report 188, October 2012

[108] Transport Committee, Sixth special report, HC 596 of 2013-14, 22 July 2013, pp13-14. See also, PQ222889, 25 February 2015 & PQ226135, 11 March 2015.

3 Budget 2014: a new 2-band structure

In his 2014 Budget the Chancellor, George Osborne, announced that from April 2015 APD would be restructured into 2-bands, with all long haul flights charged the rate of tax, while the rate of tax on private jets would be substantially increased:

> We will … reform air passenger duty to end the crazy system where you pay less tax travelling to Hawaii than you do travelling to China or India. It hits exports, puts off tourists and creates a great sense of injustice among our Caribbean and south Asian communities here in Britain. From next year, all long-haul flights will carry the same, lower, band B tax rate that you now pay to fly to the United States. Private jets were not taxed at all under the previous Government. Today they are, and I am increasing the charge so they pay more.[109]

The Budget Report summarised these changes as follows:

> As announced at Budget 2013, APD rates for 2014-15 will rise in line with RPI from 1 April 2014 … Budget 2014 announces that from 1 April 2015, the government will reform APD by merging bands B, C and D, and uprating bands A and B by the RPI. The government will also set the higher rates that apply to private business jets offering an enhanced level of comfort to 6 times the reduced rate … The government will also consult on making greater tax transparency in ticket sales.[110]

This reform was estimated to cost £215m in 2015/16, rising to £250m by 2018/19.[111] The Budget Policy Costings document gave more details:

> The tax base for this measure is all passengers currently subject to APD and travelling to destinations more than 4000 miles from London, or aboard luxury jets subject to the higher rate. In 2012-13, there were 97.5 million chargeable APD passengers, of which around 9 million were flying to destinations more than 4000 miles from London and would thus be affected by the change in rate … The static costing is calculated by applying the pre- and post-measure APD rates to [this] tax base …

[109] HC Deb 19 March 2014 c787;
[110] Budget 2014 HC 1104, March 2014 para 2.160-1
[111] op.cit. p57 (Table 2.1 – item 36).

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-230	-240	-250	-265

> Behavioural adjustments are made to take into account the increase in demand for long haul flights following this change. A price elasticity of -0.6 is applied to passenger numbers travelling to the current band C and D in the lowest class of travel on the flight (usually economy class) who are therefore subject to the reduced rate. A price elasticity of -0.1 is applied to those travelling in a higher class of travel and thus being subject to the standard rate. This behavioural effect increases the number of passengers travelling to these long haul destinations and thus slightly offsets the static cost.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-215	-225	-230	-250

It was noted that the main uncertainty in this costing arose from gauging the extent of the behavioural response.[112]

Provision was made in the Finance Bill to scrap Bands C and D from April 2015, and to increase the rates for Bands A & B in line with inflation for 2015/16.[113] At the time HMRC did not anticipate the changes would involve substantial compliance costs, though clearly the rate of tax paid on some destinations will fall considerably:

> The measure will reduce the tax paid on flights to many destinations. A family of four visiting relatives in the Caribbean or India flying in economy class will pay £56 less in APD ... There are approximately 500 airlines and operators flying from UK airports and they are expected to have negligible one-off transition and ongoing costs as a result of this measure ... Costs to HM Revenue & Customs (HMRC) of implementing this change are expected to be negligible ... Carbon assessment: the banding reform could mean that carbon dioxide emissions are around 0.3 million tonnes higher per year of the scorecard than was expected under the previous policy.[114]

In general airlines and travel companies welcomed the merger of duty bands for long haul flights, but maintained their position that the tax should be abolished.[115] The Times quoted Virgin Atlantic as saying, "the Government has rightly recognised the damage APD is having on exporters and the travelling public alike. There is a growing body of evidence demonstrating the huge

[112] HM Treasury, Budget 2014 – Policy Costings, March 2014 p25

[113] This now forms ss78-79 of FA2014. Section 80 of the Act amends the legislation setting out territories incorporated in a given band, to take account of changes to the territorial status of Ascension Island & Saint Helena, and the Netherlands Antilles.

[114] HMRC, Air Passenger Duty: banding reform, 20 March 2014

[115] "Cut in air passenger duty leaves airlines unimpressed", Financial Times, 20 March 2014

economic benefits to the UK of reducing or abolishing APD and we hope that the Government will continue to go further in the long run."[116] The Guardian quoted the IAG Group as suggesting this was "window-dressing a tax that even George Osborne says is 'crazy' … the only long-term solution is to scrap APD in its entirety."[117]

Writing in Travel Weekly, ABTA's head of public affairs, Stephen D'Alfonso, commented, "it would be odd to be anything but positive in response to any step that reduces the tax-take from APD … but it would also be wrong to interpret this as the end of the road for our APD campaigning. On the contrary, it shows that when we make a compelling case, the Treasury will listen and act."[118]

One issue flagged in PwC's report on APD was the potential revenue risk from 'multi-ticketing': passengers booking separate flights from airports on the Continent to avoid paying the higher rates of APD on long haul flights:

> With lower fares available from abroad, many UK travellers have opted to 'multi-ticket'. Instead of purchasing one long-haul ticket (either direct or indirect) from a UK-point of origin, passengers are increasingly purchasing separate tickets to reach their end destination. This involves buying one short-haul ticket to a European hub (in doing so attracting only a Band-A APD charge) and a separate long-haul ticket which the consumer can connect to at the European destination (and hence avoiding the long-haul APD charge) …
>
> This strategy does entail the risk of a delay occurring on the initial leg, which could cause the passenger to miss the subsequent flight to their end destination. Despite such risks, the initial evidence shows that the occurrence of multi-ticketing is increasing. Over the last five years, there has been a general increase in the number of UK passengers using foreign hubs, particularly Amsterdam Schiphol, to begin their onward journeys … If APD rates continue to rise there is potential for multi-ticketing to increase and threaten the tax base.[119]

In a submission before the 2014 Budget, the UK Board of Airline Representatives raised concerns about two practices for avoiding APD, but did not estimate the scale of this behaviour:

> The industry has advised HM Treasury that APD avoidance is taking place primarily as a result of the tax reaching high enough levels whereby individuals are financially incentivised to seek ways in which to do so. Avoidance is not believed to have been an issue prior to the

[116] "Cheaper holidays to the Caribbean as flight taxes cut", Times, 20 March 2014
[117] "Travel: £340m pledged for plugging potholes and flood defences", Guardian, 20 May 2014
[118] "Securing APD reform was a significant win, but the fight goes on", Travel Weekly, 25 March 2014
[119] The economic impact of Air Passenger Duty, February 2013 pp 21-23, p5

> November 2010 increases. There are plenty of websites and blogs instructing savvy travellers how to reduce or avoid paying APD
>
> This avoidance is taking place in two ways:
>
> **a) Open jaw journeys** – In particular from bands C and D, it is relatively commonplace for inbound business and leisure customers from these long-haul destinations to combine more than one city in their itinerary due to the distance and cost involved. Overseas travel agents and individuals are therefore taking advantage of common rated fares from foreign network airlines that connect customers via their hub to a number of European hubs. This is achieved by flying into the UK and connecting via train, ferry or separate air ticket in order to departing from a European hub, thereby avoiding the band C or D APD. Since many such tickets are not arranged or sold directly by airlines, and airline reservation systems (GDS) are not programmed to extract this type of travel pattern, it is extremely difficult to provide quantitative data other than to provide professional industry assurance that such activity is taking place.
>
> **b) Multi or split ticketing** – Is occurring in instances where it is financially favourable to travel via train or a separate flight ticket to connect onto a band C or D departure from a European hub. Again, airline reservation systems are not programmed to identify this trend since they are simply required to maximise revenue on each flight sector from the fare component and not the tax. However, it is known that such activity is taking place but on a highly variable level according to fare offerings on specific routes and at specific times of the year, rather than a consistent or averaged basis.[120]

Clearly there are some disincentives for passengers to avoid APD this way. First, as travellers would have to use a separate flight for the second stage of their journey, this would mean having to collect their luggage off the first flight and check in a second time. For some passengers, such as those on business, the time and hassle involved could well be a major issue. Second, anecdotally, booking flights from airports on the Continent can be more expensive. In a written answer at this time Treasury Minister Nicky Morgan stated that HMRC did not have any figures on the incidence of this, but it was anticipated that the reforms to the band structure of APD would reduce incentives for passengers to do this:

> **Andrew Percy**: To ask the Chancellor of the Exchequer what assessment he has made of the effect of multi-ticketing on the revenue accruing to the Exchequer from air passenger duty in each of the last five years; and if he will make a statement.
>
> **Nicky Morgan**: Budget 2014 announced the reform of air passenger duty with the abolition of bands C and D from 1 April 2015. This will

[120] Board of Airline Representatives in the UK, UK 2014 Budget Submission on APD, January 2014 p3

> eliminate the two highest rates of APD charged on flights to countries over 4,000 miles from Britain, cutting tax for millions for passengers to travelling to China, India, Brazil and many other emerging markets. This will mean that flights to South Asia and the Caribbean will pay tax at the lower band B rate.
>
> Air passenger duty is calculated on a passenger's final destination. The liability of a journey from the UK will be the same whether the journey is made by using a single, direct flight from the UK, or by using two or more connected flights through foreign hub airports. A journey using separate unconnected tickets has practical and financial implications including no protection on the cost of missed connections. Data is not held on the number of UK passenger journeys to foreign hub airports that may be part of a longer journey using unconnected tickets.[121]

The provisions in Finance Bill 2014 to reform the structure of APD and set the rates from April 2015 were debated, and approved unamended, on 9 April 2014.[122] On this occasion the House also considered new clauses moved by Plaid Cymru and the SNP, to devolve the tax. Speaking for the Opposition Catherine McKinnell noted that the changes announced in Budget 2014 "have been cautiously welcomed by much of the industry" though the rates for Bands B-D were being uprated for 2014/15, which "comes on top of the large increases over the past few years." Ms McKinnell argued that devolving APD to Northern Ireland was appropriate "given its unique international land border and the fact that Northern Ireland largely relies on air transport for its link to the rest of the UK" though the Labour Party remained to be convinced of the merits of further devolution.[123]

Treasury Minister David Gauke concurred with Ms McKinnell's point about Northern Ireland:

> The devolution of duty for Northern Ireland was in specific response to Northern Ireland's unique circumstances ... The current situation is that airports on the Great Britain mainland face the same APD rates, but the SNP and Plaid Cymru proposals could well lead to the introduction of the same market distortions that our devolution to Northern Ireland sought to prevent, namely the reallocation of flights from one part of the UK to another, leading to distortion in competition, and winners and losers across the UK.[124]

The Minister went on to set out the Government's case for replacing the 4-band system, and for not taking up the suggestions, made by some regional airports, that the duty rate should be higher for more congested airports, or be cut during holiday periods:

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[121] HC Deb 24 March 2014 c9W

[122] HC Deb 9 April 2014 cc358-384

[123] op.cit. c375

[124] op.cit. c377

> The previous Government's four-band system … saw travellers to China, India, Brazil, the Caribbean and a host of other destinations paying more in tax than travellers going to Hawaii, even though Hawaii is further away. We believe this system to be crazy and unfair. Clause 73 restores sense and fairness by reforming the duty bandings. It introduces a simple to understand two-band system: one band for travel to countries up to 2,000 miles from London, and another for travel to countries further away. This puts a host of countries on to the same rate as the USA and delivers a rates cut for travel to growth markets in Latin America, southern Asia and the far east with effect from 1 April 2015 …
>
> In 2011, a number of regional airports offered the view that there ought to be an additional charge of duty at congested airports, or a lower rate at uncongested airports … In October 2012, Her Majesty's Revenue and Customs published a report that shows that significantly higher prices at congested airports could lead to some passenger redistributions, but it also suggests that the benefits might not be spread widely across the UK. In addition, the report suggests that some regional airports would in fact lose passengers if a difference in price meant traffic and services went to other competing airports … It is of note that the Airports Commission's December 2013 interim report also concluded that "an air passenger duty congestion charge is not a promising solution to the capacity problem in London and the South East."
>
> In more recent times some regional airports have turned their thinking to the idea of a holiday period for new long-haul routes during which duty would not be payable. On this, the Airports Commission's interim report offers an illuminating view. It says that there are two potential pitfalls.
>
> First, if the idea applied to all new routes equally, there would be substantial potential for airlines to game the system by switching existing routes between airports. Secondly, if there were measures to control this behaviour, the idea would run a substantial risk of legal challenge, because it would distort competition in favour of particular routes and not others. The commission felt that it could not recommend the use of air passenger duty holidays. It instead referenced how airport landing charges might be used to incentivise new routes. We see nothing to disagree with in the commission's analysis.[125]

Subsequently in his Autumn Statement in December 2014 the Chancellor announced that APD on economy flights would be scrapped for children in

[125] op.cit. cc380-1. The House voted on one of the new clauses – to devolve APD to Wales – and rejected it by 254 votes to 9. Clauses 72-4 of the Bill were then agreed, without a vote.

two stages: first, from 1 May 2015 for children under 12, and then from 1 March 2016 for children under 16:

> Just as we demand that falls in oil prices should be passed on to people at the pumps, other fuel price surcharges should also come down. We are going to require airlines to list the charges separately from the taxes on tickets, but I also want to reduce the cost of those tickets for families directly. My hon. Friends the Members for Altrincham and Sale West (Mr Brady) and for North West Leicestershire (Andrew Bridgen), and many others, have asked me to help reduce air passenger duty for children on economy flights, so from 1 May next year APD for children under 12 will be abolished. I will go further than they asked: from the following year, we will get rid of APD for children under 16 altogether.[126]

This measure was estimated to cost £45m in 2016/17, and £85m in 2017/18.[127] No further changes were made to APD for the remainder of the Coalition Government's term of office, though in its last Budget in March 2015, it confirmed that duty rates would be increased in line with inflation from 1 April 2016.[128] The Government also continued to oppose calls for the tax's abolition:

> **Dr William McCrea** : To ask Mr Chancellor of the Exchequer, whether it is his policy completely to abolish air passenger duty.
>
> **Priti Patel** : Air Passenger Duty (APD) remains an important contributor to the public finances.
>
> However, as a key part of this government's long term economic plan, the Chancellor has taken action on APD. In 2015-16, over ninety-nine per cent of passengers, including many families, are set to see a freeze or reduction in rates. Budget 2014 announced a freeze in the rate of APD for short-haul international and domestic flights for a fourth year running. In addition Budget 2014 reforms APD with the abolition of bands C and D from 1 April 2015. This will cut tax for passengers travelling to destinations such as Brazil, India, China, South Asia and the Caribbean.
>
> Autumn Statement 2014 also announced an APD exemption for children under 12 on economy tickets, with effect from 1 May 2015. From the following year, the Government will abolish economy ticket APD for children under 16 altogether. This will save a two child family £26 on economy short-haul flights and £142 on economy long-haul flights, plus adds to Budget 2014's adult fare savings for families flying economy to destinations like the Caribbean and Australia, taking accumulative savings to £170 and £194 respectively.[129]

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[126] HC Deb 3 December 2014 c312. Provision to this effect was made by s57 of the Finance Act 2015.

[127] Budget 2015, HC 1093, March 2015 (Table 2.2 – item c).

[128] Budget 2015, HC 1093, March 2015 para 2.169. see also, HMRC, Air passenger duty: rates, March 2016

[129] PQ220598, 21 January 2015

4 Debates on the case for devolving APD (2014-2019)

Following the referendum on Scottish independence, in November 2014 the Smith Commission made a series of recommendations for the further devolution of powers to the Scottish Parliament. After the 2015 General Election the incoming Conservative Government introduced the Scotland Bill 2015/16 to make the necessary legislative changes, and as part of this package of measures, it was anticipated that APD would be fully devolved to Scotland from April 2018.[130] Subsequently the Scottish Government consulted on the design of a replacement Scottish Air Departure Tax over 2016, and confirmed plans to cut this tax by 50% by the end of the next Scottish Parliament, and abolish it completely when resources allowed.[131]

In March 2015 the Transport Committee published a report on smaller airports, which raised concerns about the impact that devolution might have on the tax across the UK:

> APD prevents airports in Northern Ireland competing on a level playing field with airports in the Republic of Ireland. This has cost Northern Ireland jobs, growth and connectivity. If APD were scrapped in Scotland, airports in England would be subject to a similar competitive disadvantage to that currently experienced in Northern Ireland. The further devolution of APD to, for example, north-east England or Wales would ultimately serve to extend a patchwork of APD-derived market distortions across the UK and drive a race to the bottom on regional APD rates. We would prefer the Government to act strategically and in the national interest to address APD.[132]

The Committee also reiterated its criticism made in its earlier report on aviation strategy that HM Treasury had not undertaken a fully costed study of the impact of APD on the UK economy, along the lines of the analysis published by PricewaterhouseCoopers.[133]

In February 2015 the Chancellor had indicated that the Treasury would review potential options to support regional airports affected by devolution,[134] and,

[130] For more background see Devolution of financial powers to the Scottish Parliament: recent developments, Commons Library briefing Paper CBP7077, 1 March 2016.

[131] Scottish Government, Programme for Government 2015/16, September 2015 (section 3)

[132] Smaller Airports, HC 713, 13 March 2015 paras 17-8

[133] See, Aviation Strategy, HC 78, 10 May 2013 para 102-5

[134] HM Treasury press notice, Speech by the Chancellor, George Osborne: Our long term economic plan for the North East, 27 February 2015

at the time of the Conservative Government's first Budget in July it published a discussion paper on options to mitigate these effects – looking at the case for devolving APD or varying its rates within England, or providing aid directly to affected airports.[135]

In a Westminster Hall debate on this issue on 20 October,[136] Treasury Minister David Gauke discussed the responses that had been made:

> The paper explored three potential options for supporting regional airports affected by devolution: the first was devolving APD to regions within England; the second was varying APD rates within England; and the third was providing aid to regional airports. The paper explored how the options could work and highlighted key points for consideration. The period for feedback on the options is now closed. We received a large number of responses and would like to thank all interested parties for their valuable responses to that consultation.
>
> We are carefully considering the views and evidence that we have received. We appreciate that the aviation industry values stability and certainty in the UK tax system and we will respond to the views expressed on the options in the discussion paper in due course. The response will set out how the Government wish to take the matter forward.[137]

The Minister also addressed the long-running question as to whether the Government would reconsider the case for scrapping the tax:

> Our view remains that abolition would have a limited effect on GDP and cause a net loss of tax receipts … APD makes a contribution towards the public finances. Abolishing it would put pressure on the Government to increase less efficient and more regressive taxes …
>
> Our rates are higher than those in many other countries; I am not disputing that. I am arguing that we are not convinced that abolition of APD would pay for itself. Presumably the Scottish Government are also not convinced, because they have not brought forward proposals to abolish APD. It may be an aspiration for the long term—when finances allow—but that does suggest that there would be a loss of revenue.[138]

MPs debated the position of regional airports a few months later in February 2016,[139] although on this occasion Minister for State at the DfT Robert Goodwill

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[135] HM Treasury, Discussion paper on options for supporting English regional airports from the impacts of air passenger duty devolution, July 2015

[136] HC Deb 20 October 2015 cc297-320WH

[137] op.cit. c315WH

[138] op.cit. cc315-6WH. See also, HLPQ4190, 9 December 2015

[139] HC Deb 2 February 2016 cc301-327WH

did not set out any proposals for reform, simply noting that APD was "a matter for the Chancellor."[140]

Following the outcome of the EU referendum in June 2016, the Government announced, as part of the Autumn Statement that November, that it would not introduce any immediate changes to APD but "review this area again after the UK has exited from the EU."[141] A summary of responses to the discussion paper were published at this time.[142] This noted that "no single option [had] widespread support" and the mixed responses received "indicate the complexity of the policy options". The paper also said a little more as to the consequences of the referendum vote:

> Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. This includes the application of EU rules on aviation, State aid and tax devolution issues. This may impact on how the government designs some of the options for support that were put forward for consultation. The government has not yet begun negotiations for a new set of relationships with the European Union as part of our exit, and hence considers it wise to wait for a clearer indication of what legal instruments will continue to govern this area, before taking further support measures for regional airports.[143]

The case for devolving APD to Wales was also discussed at this time, in the context of the further devolution to powers to the Welsh Assembly enshrined in the St David's Day Agreement and legislated for by the Wales Act 2017. In September 2016 the Government confirmed it would not take devolution forward, on the grounds that it would create undue market distortions.[144] Prior to this, in a 2013 report on devolving powers to Wales, the Coalition Government said that it was not convinced of the case for devolution, citing analysis published by HMRC that different rates either side of the Wales-England border would be likely to redistribute passengers between airports rather than significantly increasing the overall demand within the UK.[145]

In its next two Budgets in March 2016 and March 2017, the Government set duty rates for 2016-2018, increasing rates in line with inflation.[146] When the last of these rates changes was debated in Committee, there was a short

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[140] op.cit. cc326-7WH

[141] Autumn Statement, Cm 9362, November 2016 para 4.37

[142] HM Treasury, Options for supporting English regional airports from the impacts of air passenger duty devolution: summary of responses, November 2016

[143] op.cit. p7

[144] See comments made by the Minister, Guto Bebb, at the report stage of the Wales Bill on 12 September 2016 (HC Deb cc692-3).

[145] HMG Empowerment and responsibility: devolving financial powers to Wales, November 2013, p12. As noted above, this work was, HMRC, Modelling the Effects of Price Differentials at UK Airports, Research Report 188, October 2012.

[146] Budget 2016, HC 901, March 2016 para 2.169; Spring Budget 2017, HC 1025, March 2017 para 3.26. Provision was made by s149 of FA2016; s19 of FA2017; and, s43 of F(No.2)A2017.

exchange of views about the tax, though the clause was agreed without a vote. Treasury Minister Mel Stride summarised the Government's position:

> The Government have raised APD by RPI each year since 2012, and the clause continues that trend. With no tax on aviation fuel or VAT on international and domestic flights, APD ensures that the aviation sector plays its part in contributing towards general taxation, raising £3.1 billion per annum. The aviation sector continues to perform strongly. The UK has the third largest aviation network in the world, and passenger numbers at UK airports have grown by more than 15% in the past five years.
>
> Clause 43 sets the APD rates for the tax year 2018-19 in line with RPI. The changes will increase the long-haul reduced rate for economy class tickets by just £3 and the standard rate for all classes above economy by just £6. The rounding of APD rates to the nearest pound means that short-haul rates will remain frozen for the sixth year in a row. That will benefit 80% of all airline passengers. To give industry sufficient notice, we will announce APD rates for 2019-20 at the autumn Budget 2017, legislating in the corresponding Finance Bill.[147]

Speaking for the Opposition Anneliese Dodds asked if the Minister saw APD as providing "any kind of deterrent effect" with regard to emissions, and if "in the light of the Scottish Government's policy approach" whether he anticipated "a race to the bottom in relation to APD in future." In response the Minister said:

> The purpose of APD is clearly … to raise revenue … Like all taxes, it will also change behaviour to some degree, and to the extent that it makes flying a little bit more expensive, it could be expected to have the effect of diminishing demand for air travel… [In relation to air departure tax in Scotland] that tax has not yet been switched on, although devolution arrangements are in place, and we will of course monitor the issues that she has understandably raised in respect of competition with airports, particularly in the north of England.[148]

As it transpired in October 2017 the Scottish Government announced it would postpone the replacement of APD, reflecting concerns as to whether it could obtain EU State Aids approval to ensure exemptions for flights from Highland and Island airports.[149] Since then the Scottish Government has not given any date for introducing the new tax.[150]

[147] Public Bill Committee, (Fifth Sitting), 24 October 2017 c113

[148] op.cit. c114

[149] Statement on Air Departure Tax (Update), SP OR 5 October 2017 col 28-40; "Scottish air passenger duty changes hit snag", BBC News, 5 October 2017

[150] Revenue Scotland, Air departure tax FAQs, June 2018

Turning to Northern Ireland, in 2014 the Irish Government abolished Ireland's version of APD – the 'Air Travel Tax'.[151] In March 2017 the Northern Ireland Affairs Committee recommended that the Government consider scrapping APD on all flights using Northern Ireland airports, as well as introducing a lower rate of VAT on tourist services:

> There is compelling evidence that Northern Ireland's tourism industry is missing out on significant levels of business and jobs because the region's airports find it increasingly difficult to obtain crucial new routes. With two million passengers a year travelling to Northern Ireland via Dublin Airport, the UK's aviation tax regime places Northern Ireland at a significant competitive disadvantage …
>
> In the last Parliament, our predecessor Committee recommended that HM Treasury and the Northern Ireland Executive explore ways to reduce or, preferably, abolish APD on all flights into Northern Ireland from Great Britain and on all direct flights from Northern Ireland to any destination. At the time, the Committee was told that EU rules prohibited the Government from implementing such changes. However, in light of the decision of the UK to leave the EU, we urge the Government to reconsider our predecessor Committee's recommendation, which we believe will greatly improve connectivity for Northern Ireland.
>
> We disagree with the suggestion that reducing or abolishing APD would amount to a 'sun subsidy' that would be to the detriment of the Northern Ireland economy. We believe that abolishing APD on all flights would encourage airlines to bring new routes into Northern Ireland, connecting the region with key business and tourism markets, both outbound and inbound, bringing substantial benefits to the region's economy. The Executive should seek the full devolution of APD, and follow the Scottish Government's example by recognising the potential benefits of reducing or, preferably, abolishing APD.[152]

In 2014 the Northern Ireland Executive published a report commissioned from the Northern Ireland Centre for Economic Policy (NICEP), based at Ulster University, on the impact on the economy of air passenger pricing, including short-haul APD. The report concluded that, when reductions to the block grant were factored in, the benefits of reducing or abolishing APD were marginal, and that a strong case for abolishing APD in Northern Ireland had not been made.[153] In its report the Committee observed that this analysis "does not command the support of the air travel industry" and recommended that the Government and the Northern Ireland Executive "re-examine the economic case for abolishing APD on flights to and from Northern Ireland, liaising fully with the air travel industry to ensure that economic assumptions

[151] Revenue Ireland, Air Travel Tax, May 2018

[152] Second report: Promoting the tourism industry in Northern Ireland through the tax system, 20 March 2018, HC 50 of 2016-17, p35

[153] The report was also cited in answer to a PQ: PQ22412, 18 January 2016

are accurate, and reflect the reality of the growing dominance of Dublin Airport on the island of Ireland."[154]

The Committee's report was published just before the 2017 General Election. Following the outcome of the election, the Conservative Government concluded its Confidence and Supply Agreement with the Democratic Unionist Party;[155] alongside the Agreement the Government published a note on the extra financial support to be given to Northern Ireland which noted that "a detailed consultative report will be commissioned into the impact of VAT and APD on tourism in Northern Ireland to recommend how best to build upon the growing success of that sector."[156] In a short response to the Committee's report, published in November, Treasury Minister Mel Stride noted the Government would "look again at the impact of VAT and APD … in line with the … Confidence and Supply agreement."[157]

In his 2017 Budget statement on 22 November the Chancellor Philip Hammond confirmed the Government's plans to "review the effect of VAT and air passenger duty on tourism in Northern Ireland, reporting at next year's Budget."[158] The consultation was launched in March 2018. It asked for views on the impact of three tax changes affecting the industry: the abolition of long-haul APD in Northern Ireland, as well as the Irish Government's introduction of the 9% VAT rate, and scrappage of Air Travel Tax:

> The power to set the APD rates on direct long-haul flights departing Northern Ireland was devolved to the Northern Ireland Assembly and from 1 January 2013 the rates were set at £0. Currently, there are very few long-haul flights departing Northern Ireland. The government is interested to explore why, given a £0 tax rate, airline operators have not invested more long-haul services in Northern Ireland …
>
> Ireland temporarily reduced the rate of VAT on several tourism related activities from 13.5% to 9% in May 2011, as part of a package intended to support the tourism industry …
>
> In 2016, overseas tourist visits to Ireland and overseas tourist spend rose by 9%, while in Northern Ireland overseas tourist visits and overseas visitor spend rose by 12% and 13% respectively. However, Indecon's 2017 report, 'Impact of the VAT reduction on Irish Tourism and Tourism Employment', found that perceived value for money has significantly improved in Ireland following VAT reductions. In 2016, positive views outnumbered negative by 7:1. This shift towards

[154] HC50 of 2016-17, 20 March 2018 p30
[155] No.10 Downing Street press notice, PM statement on Confidence and Supply Agreement with the DUP, 26 June 2017; see also the statement made to the House by First Secretary of State, Damian Green (HC Deb 26 June 2017 cc229-330).
[156] Prime Minister's Office, UK government financial support for Northern Ireland, 26 June 2017
[157] Northern Ireland Affairs Committee, Government Response to the Committee's Second Report of Session 2016–17, 7 November 2017
[158] HC Deb 22 November 2017 c1052; see also, Autumn Budget 2017, HC 587, November 2017 para 4.89

> 'good/very good' value for money was seen by tourists from various locations, including the US, the UK and mainland Europe.
>
> The government is interested in how changes to the VAT rate and the abolition of Air Travel Tax in Ireland have impacted the demand for tourism there and in Northern Ireland. Equally, it is interested in the impact other countries have seen after changing their tax treatment of tourism related activities.[159]

The document underlined that responses to the consultation would "inform future policy development but the government has made no firm decisions about the issues set out in this document."[160]

In his Autumn 2017 Budget the Chancellor also confirmed duty rates for 2019, announcing that the standard and higher rates on 'Band B' long haul flights would be increased, but all other duty rates would be frozen.[161] All told this was estimated to raise around £25m a year.[162]

Over this period stakeholders continued to lobby for the tax to be substantially cut or scrapped, without any indication of a change in the Government's position.[163] In making their case for abolition, the Fair Tax On Flying campaign cited an international survey of 'travel and tourist competitiveness', published by the World Economic Forum in September 2017. This ranked the UK as having among the highest ticket taxes and airport charges, though the many other factors that the authors considered in evaluating a country's relative attractiveness for tourism mean that globally the UK was considered the fifth most-competitive country, behind Spain, France, Germany and Japan.[164]

The Chancellor presented the Government's 2018 Budget on 29 October. In his Budget speech Mr Hammond announced that from April 2020, APD "will be indexed in line with inflation, but there will be no change in the duty rate for short-haul flights." He also noted that the Government had "agreed to the establishment of a working group to progress plans for short-haul air passenger duty devolution."[165]

The Budget report gave details of this revenue neutral change in duty rates…

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159 HMT, VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence, March 2018 para 3.10. 3.12, 3.14-6. The deadline for responses was 5 June.

160 op.cit. para 1.8

161 Autumn Budget 2017, HC 587, November 2017 para 3.45; HMRC, APD rates from 1 April 2019 to 31 March 2020, November 2017

162 Autumn Budget 2017, HC 587, November 2017 (Table 2.1 – item 12). Provision was made by s43 of FA2018. In Committee this was agreed without a vote: Public Bill Committee, Fifth sitting, 16 January 2018 c158-162

163 PQ130490, 9 March 2018

164 The report ranked countries by their "price competitiveness" and did not give any precise details of taxes and charges in individual nations. The work was cited in the Treasury's Call for Evidence on VAT and APD (March 2018 para 2.9-10).

165 HC Deb 29 October 2018 c666, c665

> Short-haul APD rates for 2020-21 will not rise, remaining at the same level they have been since 2012, benefitting 80% of passengers.[166] Long-haul rates will increase in line with RPI. The rates for long-haul economy will increase by £2, and the rates for those travelling in premium economy, business and first class will increase by £4. Those travelling long-haul by private jets will see the rate increase by £13.[167]

… and the Government’s response to the consultation:

> At the Budget the government is publishing its response to the call for evidence on the impact of VAT and APD on tourism in Northern Ireland. There will be no changes to the VAT or APD regimes in Northern Ireland at this time. The government will continue to explore ways to support a successful and growing tourism industry. In particular, establishing a technical working group to consider the practical and legal challenges to changing short-haul APD in Northern Ireland.[168]

A longer extract from the executive summary to the Government’s response is reproduced over the next two pages:

> Many respondents to the call for evidence argued in favour of cuts to the rate of VAT applied to accommodation and attractions in Northern Ireland … It was also argued that the rate of short-haul APD should be reduced in Northern Ireland, to help to support the tourism industry. Fewer representations were made in support of cuts across the UK as a whole, however those in favour argued that the cost of tax reductions would be offset in the longer term by industry growth.
>
> Much of the evidence presented focused on competition between the tourism industries of Northern Ireland and Ireland … Ireland maintains a 9% reduced rate of VAT on tourism related services, including accommodation and restaurants. The Irish government announced on 8 October that from 1 January 2019 the VAT rate on tourism related services will rise to 13.5%. The UK maintains a standard rate of VAT of 20% which applies to most goods and services. Respondents felt this created a distortion of competition across the border, particularly as prices are normally advertised as VAT inclusive. Furthermore, the rate of APD is claimed to deter international short-haul visitors, although evidence presented suggested short-haul travellers are less price sensitive.
>
> This is set within the context of a Northern Ireland economy currently dominated by domestic tourism and seeking to expand within the international market. Tourism Ireland advertises Northern Ireland and Ireland internationally. This is claimed to inadvertently cast a

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[166] HMT calculations based on ‘Air Passenger Duty Bulletin’, HMRC, March 2018.
[167] Budget 2018, HC 1629, October 2018 para 3.49
[168] op.cit. para 4.113

> spotlight on price differences between the two markets. However, marketing of the all-island economy is also argued to have certain advantages, with tourism in Northern Ireland benefitting from visitors to Ireland. There are also a number of features of the existing tax regime that already support the tourism industry …
>
> In 2012, the UK government devolved the power to set direct long-haul APD rates to the Northern Ireland Executive, and the Executive subsequently set these at zero with the intention of supporting the long-haul market in Northern Ireland. While the government recognises the difficulties that may arise from a higher rate of tax in Northern Ireland, the industry's growth demonstrates its success.
>
> VAT and APD are important sources of revenue for the Exchequer, raising £125 billion and £3.4 billion in 2017-18 respectively. This money is used to fund the government's spending priorities such as health, education and defence and any loss of revenue must be balanced by increased borrowing, reduced public spending or increased taxation elsewhere. …
>
> This evidence must also be considered within the existing legislative framework and, in the absence of an Executive in Northern Ireland, there is currently no scope for further devolution of any tax, including APD, in Northern Ireland. In addition, it is not possible to introduce differential VAT rates within a single VAT territory under EU law.
>
> In light of the legal and fiscal considerations set out above, the government will not be making changes to the rates of VAT on tourism related services in Northern Ireland or the UK as a whole at this time. There will also be no changes to the APD regime in Northern Ireland at this time. However, we will continue to analyse the evidence and receive representations on VAT and APD policy in order to keep these issues under close review.
>
> This is a complex area affecting important sources of revenue for the Exchequer. The arguments set out in this call for evidence have highlighted these complexities and the government will take them into consideration in future policy development. In particular, the government will establish a technical working group to consider the practical and legal challenges to changing short-haul APD in Northern Ireland. Further details of this group will be provided in due course.[169]

As noted in answer to a PQ in March 2020, no further details of this work have been published since then.[170]

[169] HM Treasury, VAT, Air Passenger Duty and tourism in Northern Ireland : summary of responses, October 2018 pp2-3. See also, PQ186977, 6 November 2018.

[170] PQ HL1993, 10 March 2020. See also, PQ13070, 11 February 2020.

5 Consultation on aviation tax reform (2020-21)

In January 2020 the Secretary of State for Transport, Grant Shapps, announced a review of regional connectivity, to be led by Department for Transport (DfT) to "ensure all nations and regions of the UK have the domestic transport connections local communities rely on – including regional services from local airports." The Secretary of State went on to note that, "as part of this work and ahead of the March Budget, the Treasury will also be reviewing Air Passenger Duty (APD) to ensure regional connectivity is supported while meeting the UK's climate change commitments to meet net zero by 2050."[171]

As it transpired the 2020 Budget was dominated by the Government's initial response to the Covid-19 pandemic, although the Budget report confirmed that there would still be a consultation on aviation tax reform in the spring.[172] However, the following month the Financial Secretary announced that the consultation was one of a number to be postponed, with the impact of Covid-19.[173] The Budget report also confirmed an inflation-only increase in APD rates for the next year,[174] although unsurprisingly reactions to the Budget focused on other measures.

In June 2020 the Transport Committee published a report on the impact of the pandemic on the aviation sector, noting that at this time the industry had seen "a 97% reduction in passenger flights compared to the previous year … with estimates that the industry in the UK could lose over £20 billion in revenue in 2020." The Committee observed that many companies had accessed financial support from the Government, primarily in the form "of generic schemes" but recommended that "the UK Government implements support measures aimed at the sector in order to stimulate demand and protect businesses."[175] As part of this, the Committee recommended that payments of APD should be suspended for six months:

> To help airlines bring prices down and encourage people to go on holiday and take business trips, industry representatives have called for temporary suspensions of aviation-specific taxes and charges, including the suspension of Air Passenger Duty (APD) payments. Airlines UK and BALPA called for APD payments to be suspended for

171 Written Statement HCWS38, 15 January 2020

172 Budget 2020, HC 121, March 2020 para 2.222

173 Written Statement HCWS211, 28 April 2020

174 Budget 2020, HC 121, March 2020 para 2.221. see also, HMRC, Changes to APD rates from 1 April 2021, 11 March 2020. Provision to this effect was made by s90 of the Finance Act 2020.

175 Transport Committee, The impact of the coronavirus pandemic on the aviation sector, HC 268, 13 June 2020 p3

> six months. Airports also supported suspending APD particularly to help incentivise domestic flights ….
>
> Given the gravity of the crisis in the aviation sector, we recommend that the UK Government implements support measures aimed specifically at the aviation sector in order to stimulate demand and protect businesses. In particular, we recommend that the UK Government and the devolved administrations (where they have not already done so) introduce a 12-month business rates relief for airlines and airports and a sixmonth temporary suspension of Air Passenger Duty payments.[176]

The DfT published its response to the Committee in September, although on this particular recommendation the Department simply noted that APD "is led by HM Treasury" …

> The Department for Transport and HM Treasury are engaging closely with industry, through the Expert Steering Group, to understand their assessment of the outlook for the sector and implications of any sector specific support measures.
>
> More broadly, the Chancellor has announced that there will be a consultation on aviation tax reform. As part of this consultation, the Government will consider the case for changing the APD treatment of domestic flights, such as reintroducing a return leg exemption, and for increasing the number of international distance bands. HM Treasury are keen to engage widely as part of this consultation, and would welcome input from businesses, individuals, trade and professional bodies and other interested parties.[177]

… while the Exchequer Secretary, Kemi Badenoch, ruled out any waiver to APD liabilities in answer to a PQ the following month:

> **Henry Smith**: To ask the Chancellor of the Exchequer, what assessment his Department has made of the potential merits of introducing a 12-month waiver on Air Passenger Duty to provide support to the aviation sector, trade and connectivity during the covid-19 outbreak.
>
> **Kemi Badenoch** : The Government recognises the challenging times facing the aviation industry as a result of COVID-19 and firms experiencing difficulties can draw upon the unprecedented package of measures announced by the Chancellor, including schemes to raise capital and support jobs and flexibilities with tax bills. The aerospace sector and its aviation customers are being supported with over £8.5 billion support through the Bank of England's Covid Corporate Financing Facility, grants for research and development,

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[176] op.cit. para 45, 47

[177] Transport Committee, The impact of the coronavirus pandemic on the aviation sector: Government and Civil Aviation Authority Responses, HC 745, 7 September 2020 para 32-3

> loan guarantees and support for aerospace exports. The government has also launched a new Global Travel Taskforce to support the travel industry and the safe recovery of international travel.
>
> Airlines' Air Passenger Duty liabilities will have considerably reduced following the decline in passenger demand caused by COVID-19.
>
> The Government has committed to consult on aviation tax reform and will provide more detail on next steps in due course.[178]

During the summer the Prime Minister announced a review to "to look at how best to improve road, rail, air and sea links between our four nations to create a more connected kingdom,"[179] and in October the Secretary of State for Transport, Grant Shapps, published the terms of reference for this review, to be chaired by Sir Peter Hendy CBE.[180]

On 10 March 2021 Mr Shapps announced the publication of Sir Peter's interim report, and stated that "the … consultation on aviation tax reform, announced at Budget 2020, will be published in Spring 2021.The consultation will include options to change the APD treatment for domestic flights, such as reintroducing a return leg exemption or creation of a new lower domestic rate."[181] At this time the Government also confirmed that it was in the process of developing "a strategic framework for the aviation sector" to include "a thorough consideration of the sector's contribution to the government's target of a net zero economy by 2050."[182] Subsequently in July the DfT launched its transport decarbonisation plan,[183] including a consultation on its approach to decarbonising aviation, although this does not discuss aviation taxation at any length.

The Budget report announced APD rates would be increased in line with inflation for 2022/23, in line with earlier years.[184] Provision to set duty rates was included in the Finance Bill published after the Budget.[185] This was subject to a short exchange during the Committee stage of the Bill. On this occcasion Exchequer Secretary Kemi Badenoch summarised this measure as follows:

> As APD is a per passenger tax, airlines' liabilities have considerably reduced following the decline in passenger demand caused by the pandemic between April and September 2020, by 87% when compared with the previous year. Aviation fuel incurs no duty and tickets are VAT-free, so APD ensures that the aviation sector makes a fair contribution to the public finances. Uprating APD rates in line with inflation is routine and has occurred every year since 2012. The

178 PQ103484, 22 October 2020
179 10 Downing Street press notice, PM: a New Deal for Britain, 30 June 200
180 Written Statement HCWS484, 5 October 2020
181 Written Statement HCWS838, 10 March 2021
182 PQ167324, 17 March 2021
183 HC Deb 14 July 2021 cc404-6
184 Budget 2021, HC 1226, March 2021 para 2.86
185 This now forms s107 of the Finance Act 2021.

> Government announce the rates one year in advance, in order to give airlines sufficient notice of any changes.
>
> The changes to be made by the clause will increase the long-haul APD tax rates for 2022-23 by RPI. The clause increases the long-haul reduced rate for economy class nominally, by just £2; and the standard rate for all classes above economy by £5—a real-terms freeze. The rates for long-haul travel by private jets will increase by £13. The rounding of APD rates to the nearest £1 means that short-haul rates will remain frozen in nominal terms for the 10th year in a row. That benefits more than 75% of all airline passengers.[186]

In a small change of practice, a few days after the 2021 Budget the Government published a number of tax consultations and calls for evidence,[187] and this included its consultation on APD:

> **Aviation tax** – The government is publishing a consultation to consider how Air Passenger Duty (APD) could support Union and regional connectivity, alongside the commitment to reach net-zero emissions by 2050. This follows the government stating its intent to consult at Budget 2020.
>
> The consultation sets out the government's current approach to taxing the aviation sector, via APD, before going on to seek views on the government's initial position that the effective rate of APD on domestic flights should be reduced and the potential options through which this could be achieved. It also seeks views on a potential increase to the number of distance bands, in order to align the tax more closely with the government's environmental objectives and to help fund any reduction in domestic APD.[188]

The consultation document sets out two possible reforms to APD to support connectivity: the introduction of an APD exemption for the return leg of domestic return flights ...

> 2.7 When APD was first introduced in 1994, the government included an APD exemption for the return leg of domestic return flights. The government subsequently removed the exemption in 2001, in response to concerns from the European Commission.
>
> Following our departure from the EU, the government is considering is the reintroduction of an APD exemption for the return leg of a domestic return flight. Under this proposal, domestic flights would continue to be treated within the shortest band of APD, although airlines would not be liable to pay APD for passengers travelling on the return leg of a domestic return flight.

[186] Public Bill Committee (Finance (No.2) Bill), Third Sitting, 27 April 2021 c82
[187] Written Statement WS873, 23 March 2021
[188] HMT, *Tax policies and consultations (Spring 2021)*, CP404, March 2021 para 3.3

A return leg exemption could operate as follows:

- Airlines would only be able to benefit from such an exemption if they provided evidence that a passenger was travelling on a return ticket, i.e. that both legs of the journey were purchased at the same time, although there would be no time limit on when the return flight needed to take place.
- APD would still be due on the outbound leg, but the airline would be exempt from the duty on the passenger's return leg if the relevant eligibility conditions were met.
- The exemption would only apply to passengers travelling between the same UK airports.
- Both the outbound and return service would need to be provided by the same carrier.
- The exemption would apply across all classes of travel, including business jets.

2.9 The government considers that that the reintroduction of a return leg exemption could give rise to administrative complexities for both HMRC and airlines because it is dependent on a ticket being classed as a return and would welcome the views of respondents regarding this matter.

Furthermore, in light of modern ticketing practices, we consider that consumers may be less likely to purchase a return ticket and that it may be difficult to determine whether or not a passenger is returning on a single or return ticket. In addition, a return leg exemption would only apply to returns and therefore would not benefit those passengers travelling on a single ticket.

… or the introduction of a new band for domestic flight (the option it favoured):

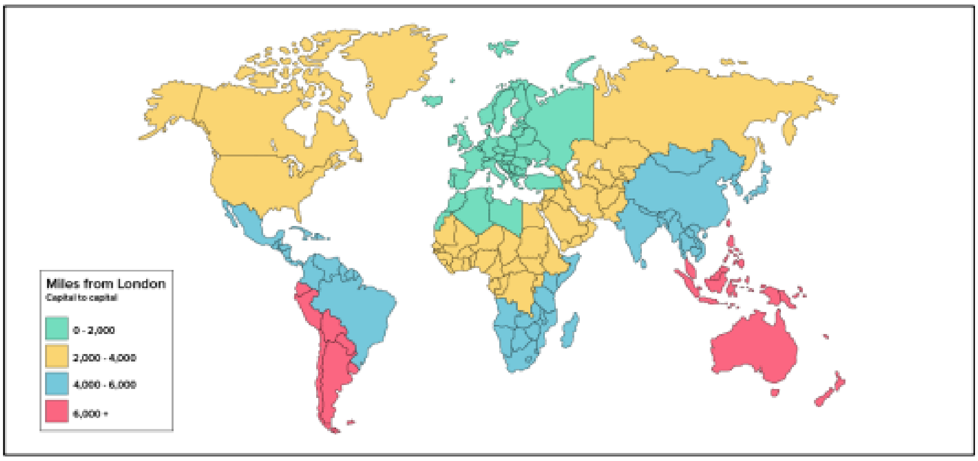
> 2.10 An alternative option the government is considering is to introduce a new, separate domestic band within APD for routes between UK airports, which would be set at a lower rate than the shortest international band. Under this proposal, domestic flights would no longer be included within the shortest international band.
>
> 2.11 The introduction of a new domestic band would ensure that all domestic flights benefited from a lower rate of APD, including single leg journeys. The government considers that such an approach would be simpler for HMRC and airlines to administer than a proposed return leg exemption, because it would apply to all domestic flights, not just those on a return ticket.

> 2.12 In light of these factors, the government's initial policy position is that the introduction of a new domestic band would be the most appropriate approach to reducing the domestic rate of APD, as opposed to the reintroduction of a return leg exemption.[189]

The document goes on to discuss the current distance bands that apply, arguing that increasing the number of those would "align APD more closely with our environmental objectives, and ensure that the overall proposed package of reforms balances our domestic connectivity and environmental goals, as well as maintaining the sector's contribution to the public finances and our public services."[190] The paper sets out two options : reverting to the structure that was introduced in 2008, with four bands …

> 4.9 One possible approach to increasing the number of international distance bands would be to introduce the four-distance band structure that was announced in 2008, with the distance bands set at 0-2,000 miles; 2,000- 4,000 miles, 4,000-6,000 miles and 6,000 miles plus, from London respectively. This structure would apply to all states with the exception of the Russian Federation, which would be split east and west of the Urals.[191]

Chart 4.A: 2008 distance band structure



> 4.10 The government considers that the distances at which these distance bands are set would better support the government's environmental objectives than the current two band structure, by strengthening the principle that those that fly further incur a higher rate of APD. We would expect airlines to easily incorporate this proposed distance band structure within their operating system, given that airlines have previously complied with the same distance band structure.

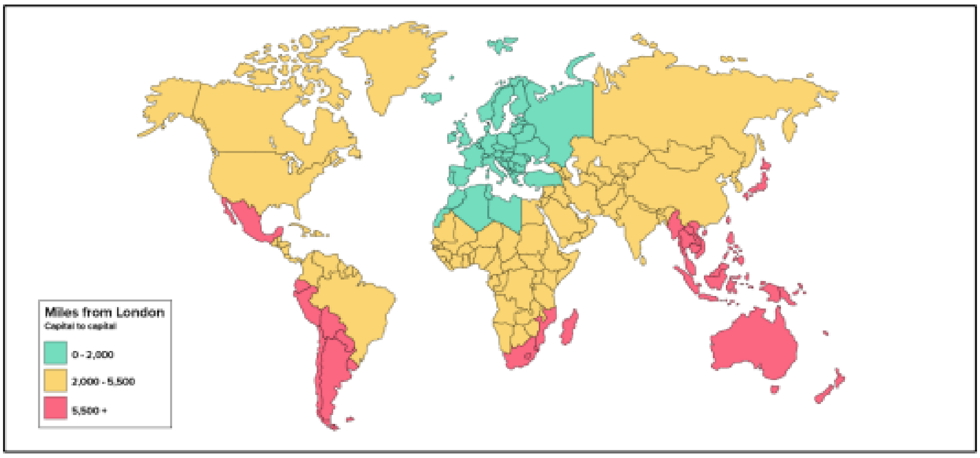
[189] HMT, Aviation tax refom: consultation, March 2021 pp9-10
[190] HMT, Aviation tax refom: consultation, March 2021 para 4.7
[191] This is standard across the aviation industry.

> 4.11 However, this structure previously posed some practical issues, notably between Bands B and C and also impacted on the UK's international connectivity. In particular, the then government received several representations regarding concerns that the whole of the United States of America was included within Band B whereas the Caribbean was incorporated within Band C, because of the distance of their respective capitals. These factors led to decision in 2014 to revert to the two-band structure.

... or having a new structure with three bands (its preferred option):

> 4.12 The alternative approach would be to design a new distance band structure, different to that introduced in 2008. The government could seek to introduce three international distance bands at the following distances: 0- 2,000 miles; 2,000-5,500 miles; and 5,500 miles plus. As with the current two-band structure, the Russian Federation would be split east and west of the Urals.

Chart 4.B: revised distance band structure



> 4.13 As with option A, the government considers that, by increasing the number of distance bands from the current two band structure, this option would better support the government's environmental objectives by strengthening the principle that those that fly further incur a higher rate of APD. However, a three band structure may be considered to better align with the government's objective to ensure APD supports international connectivity, as it would reduce the number of destinations that were subject to differential APD treatment (compared to option A).[192]

Finally, the document set out the Government's view that APD should not be replaced with a frequent flyer levy:

[192] HMT, Aviation tax refom: consultation, March 2021 pp15-17

> 4.14 The Committee on Climate Change and several environmental stakeholders have suggested that the government should introduce a frequent flyer levy, in order to tackle the environmental impacts of flying in an equitable way.
>
> 4.15 A frequent flyer levy would seek to constrain overall demand for flights, by increasing the amount of tax liability due, according to the number of flights a passenger had previously taken. Unlike APD, the tax would be levied on the individual, rather than the airline.
>
> 4.16 A frequent flyer levy would be significantly more complex to administer than APD, for both airlines and HMRC, on the basis that it could require the government to collect and store personal information on each passenger. The government would have to be able to record and identify every flight an individual took from a UK airport for the purposes of calculating how many flights they had taken within a given period. This would not only increase complexity (because of the significant increase in taxpayers) but may also pose concerns around data processing, handling and privacy. There may be additional compliance issues, particularly with passengers who were able to travel under multiple passports. It may also pose challenges for individuals who have an essential need to fly frequently.
>
> 4.17 In addition, it is important to note that airlines ordinarily pass the cost of APD onto the passenger. Therefore, those passengers who fly more will, in effect, already pay more under the current system.[193]

The consultation closed on 15 June.

The Welsh Affairs Committee held a one-off session on the future of APD on 24 June, taking evidence from the Exchequer Secretary (Kemi Badenoch) and the Secretary of State for Wales (Simon Hart). On this occasion the Exchequer Secretary mentioned the comments that had been received to date:

> **Virginia Crosbie:** In terms of the discussions the UK Government have had with the Welsh Government and Cardiff Airport regarding the proposals to reduce the domestic rate of APD and potentially introduce new distance banding for international APD, Minister?
>
> **Kemi Badenoch:** The proposal for reducing APD for domestic connectivity is to help improve regional connectivity. It is not just for flights within a particular country, but for flights between all the four nations. It is not necessarily something we are going to do. We want to hear the views of all the relevant stakeholders on whether it will help. The views I heard, in the meetings and roundtables I had, were mixed. I do not think it is something people have very strong positive

[193] op.cit. p17

> views about. We will wait and see what the sum total of the consultation is.[194]

Subsequently in answer to a PQ on 1 July the Exchequer Secretary Kemi Badenoch confirmed that, "the Government is currently reviewing responses and will update in due course."[195]

The future of regional airports were the subject of a debate in Westminster Hall on 7 July.[196] On this occasion Transport Minister Robert Courts simply noted that the Treasury were "considering responses [to the APD consultation] and will give an update on response timings in due course."[197]

[194] Welsh Affairs Committee, Oral evidence: One-off session on the future of Air Passenger Duty, HC 283, 24 June 2021 Q27
[195] PQ23090, 1 July 2021
[196] HC Deb 7 July 2021 cc201-224WH. See also, Future of regional airports, Commons Library briefing CDP2021-118, 6 July 2021.
[197] HC Deb 7 July 2021 c221WH

6 Appendix: Current distance band structure and APD rates

Chart 1.A: Current distance band structure

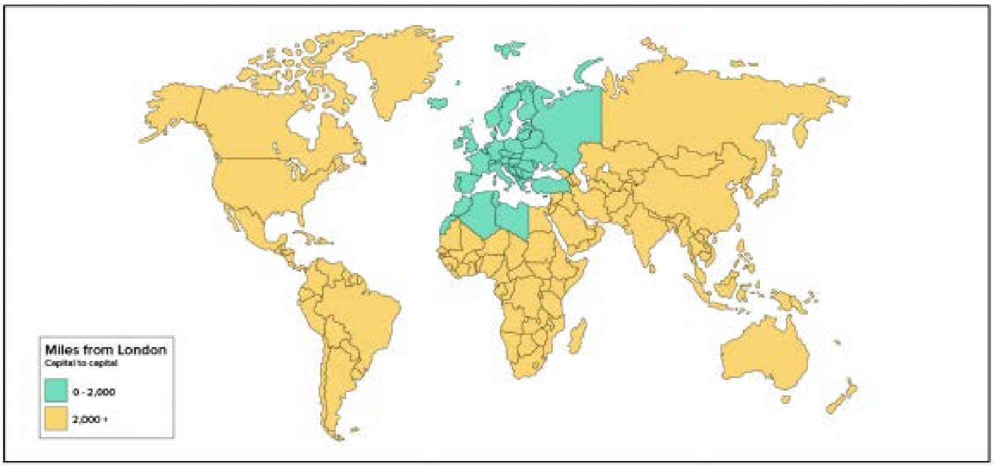


Table 1.A: APD rates for 2020/21; 2021/22; and 2022/23

Air passenger duty rates[4, 5]									
Bands (approximate distance in miles from London)	**Reduced rate (lowest class of travel)**			**Standard rate [6] (other than the lowest class of travel)**			**Higher rate[7]**		
	From 01 April 2020	From 01 April 2021	From 01 April 2022	From 01 April 2020	From 01 April 2021	From 01 April 2022	From 01 April 2020	From 01 April 2021	From 01 April 2022
Band A (0 – 2,000 miles)	£13	£13	£13	£26	£26	£26	£78	£78	£78
Band B (over 2,000 miles)	£80	£82	£84	£176	£180	£185	£528	£541	£554

Notes to Table 1.A

[4] APD applies to all flights aboard aircraft 5.7 tonnes and above.

[5] Rates for direct long-haul flights from Northern Ireland are devolved and set at £0. Direct long haul journeys are those where the first leg of the journey is to a destination outside Band A.

[6] Where a class of travel provides a seat pitch in excess of 1.016 metres (40 inches), the standard rate is the minimum rate that applies

[7] The higher rate applies to flights on aircraft of 20 tonnes and above, with fewer than 19 seats.

Source: HMT, Aviation tax refom: consultation, March 2021 p4